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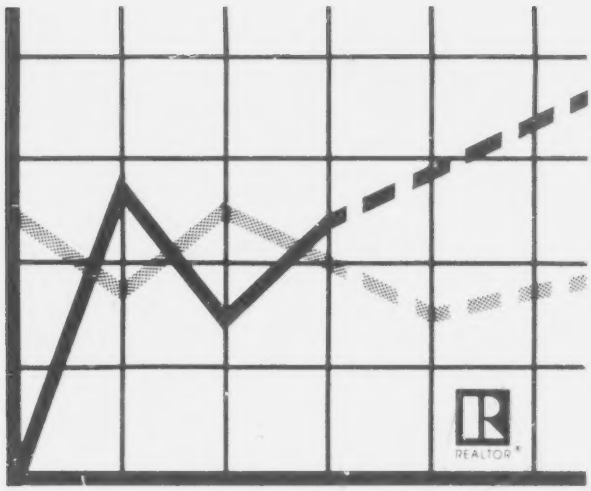
OUTLOOK FOR THE ECONOMY AND REAL ESTATE



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November 1981

RECESSION NOW BUT RECOVERY SOON

High interest rate policies have created a recession, but it is likely to be average in length and severity.

Modestly stimulating fiscal policies and excessively tight credit policies produced record interest rates during 1980 and 1981. In March, the President proposed increasing the Federal deficits with tax relief larger than spending reductions. The Administration also endorsed and the Federal Reserve Board provided very slow growth of money supply. The Congress enacted the comparable spending and tax cuts, which are now resulting in both actual increases in federal deficits and expectations of higher deficits in the future which has,is and will keep real interest rates high.

Profile of the Recession and Recovery

The impact of high interest rates has spread from the housing industry to other sectors of the economy, driving the overall economy into recession. Automobile manufacturing has dropped alarmingly and now commercial and industrial construction and new equipment investment are suffering despite the recent tax law changes.

State and local governments are also reducing their real expenditures as they react to cutbacks of federal grants and aid, reduce bond financing because of high interest rates, and as the recession reduces their tax revenues.

Even the export sector -- which has provided a strong stimulus and growth in the past -- is declining as high U.S. interest rates keep the foreign exchange rate high and stagnant growth in Europe continues.

Recovery from the current recession will likely begin next spring, spurred on by stronger consumption expenditures and initially slow but accelerating improvement in housing and automobile productivity.

The anticipated upturn in economic activity next spring should ensure that the current recession will be about average in severity and length. Overall national output will probably increase a mediocre 1.5 percent this year and another substandard one percent in 1982.

Inflation

Inflation has subsided to an underlying rate of 9 to 10 percent, primarily because of stable energy and food prices and secondarily from a squeeze on profits. More slowly rising oil prices should continue to hold inflation down through 1982. Food price inflation may also remain modest because of record corn and near record soybean harvests and lower prices for beef and pork.

Further reduction in underlying inflation will depend on the future trend in wage and productivity increases. Workers may attempt faster wage increases to catch up on purchasing power lost in recent years and to keep wages from falling further behind inflation in the future. On the other hand, the recession means fewer jobs which reduces the bargaining position of workers and places downward pressure on wage demands. The Administration's handling of the air traffic controllers dispute may also cool ardor of other public unions. The net result of these pressures is likely to be a slow trend downward in compensation per manhour over the next two years. With a slow improvement in productivity to about 2%, unit labor costs should also trend downward during 1982 and 1983.

Thus, overall inflation can be expected to decline. Consumer price inflation should drop from 10.7 percent in this quarter to 8-9% during 1982 and 1983. Producer prices are already increasing at low 4-5% rates but can be expected to accelerate with the recovery to 10% during 1983.

Thatcherism and Reaganism

The U.S. experience during 1981 has some parallels with recent British experience. Like President Reagan, Prime Minister Margaret Thatcher cut personal income taxes in an effort to stimulate economic growth and slow money growth to help fight inflation. She tried to cut government spending to reduce deficits, public credit demand and interest rates, just as the President is trying. But instead of more rapid economic growth and falling inflation, her policies produced Britain's most severe recession since the 1930's, unemployment over 12 percent, and little progress on the inflation front. She found that even her less stringent monetary policy caused more of an impact on interest rates and growth than inflation.

During the British recession, as will occur with the U.S. recession, deficits creating large tax cuts cannot be easily offset by reductions in government spending. Government expenditures automatically increased for unemployment benefits and other assistance programs. Tax receipts declined because of lower income or output.

The United States economy is more dynamic and competitive than the British. In addition, political intolerance to high interest rates and unemployment is likely greater within the United States. Consequently, neither the private sector nor public sector policies are likely to produce a British-like recession, only a mild version.

Economic Policy

Fiscal policy has remained modestly stimulative and will likely continue. When combined with restraining credit policy, high real interest rates will persist.

President Reagan in March and the Congress in May promised to hold spending to $695 billion in FY 1982 but they have busted the budget by at least $28 billion -- about the same as the 4.4 percent average spending overrun of the past 10 years.

With the economy slowing and tax revenues likely to be below the Administration's initial estimates, there have been renewed calls for "revenue enhancement" measures to reduce the deficit. However, proposals for tax increases are likely to be considered only after the November 1982 election. When tax increases are considered, the Congress and Administration will likely propose sales, excise, and value-added taxes. The first large target of opportunity may be a "windfall profits tax" on natural gas which is released from federal price controls.

The combination of budget-busting and tardy tax increases should cause the federal deficit to increase in 1982, 1983, and 1984. However, the deficit will not increase as a percent of the Gross National Product and may be viewed by investors with less alarm during the years ahead.

Monetary Policy and Interest Rates

Monetary policy continues to be tight but interest rates are beginning to decline as the demand for credit softens.

The narrowly defined money supply (M1b) has remained flat since its $5.7 billion jump in early October while the more broadly defined money supply (M2) is now growing below the 9 percent upper target of the Federal Reserve Board. The Federal Reserve Board has responded to slower growth of the money supply and reduced demand for credit by lowering its discount rate to 13 percent -- down a full percentage point.

Short-term interest rates have also declined significantly during September and October, and can be expected to fall another percentage point by Christmas. However, these declines may plateau and interest rates could even increase again because of the beginning of recovery in economic activity next year and the high seasonal borrowing of the Treasury.

Long-term rates have not followed short-term rates yet. Holders of long-term debts have been burned by fluctuations in the past and failure of government to deliver on anti-inflation programs. Investors are also hesitant about tying up their savings in long-term investments. However, we can expect long-term rates to follow short- term rates soon. Corporate AAA should decline 1 percentage point from 16 to below 15 percent by mid-winter and mortgage rates from 17 to 15-16 by mid-winter, and stay between 14 and 15 during the remainder of 1982.

Mortgage Finance

Mortgage interest rates will be declining until early next year. The thrift institutions will benefit doubly from falling short term interest rates and inflows from All Savers Certificates. During the summer, the thrift institutions suffered heavy deposit outflows and increasing losses. Insured Savings and Loans posted a $13.3 billion net outflow of deposits for July, August and September. Mutual Savings Banks suffered $3.5 billion in net deposit outflows in July and August. After posting a $1.5 billion loss in the first half of 1981, the net worth of federally insured Savings and Loans declined $1.4 billion during July, August and September.

With the availability of funds tight and the cost of funds increasing, mortgage lending by the thrifts continued to decline. Mortgage commitments for insured Savings and Loans dropped in September to $3.2 billion from $4.0 billion in August and $10.0 billion in September 1980. Outstanding mortgage commitments fell to $16.0 billion; this was $2.7 billion below last October's figure of $18.7 billion.

The overall health of the thrift industry received special attention in Washington after this summer of discontent. The Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank Board, the Treasury Department and the Congress work to improve the viability of the thrifts. Now the thrifts have the competitive All Savers Certificate to attract new funds. The Bank Board survey indicates $13 to $14 billion of these certificates were issued in the first 20 days of October and about one-fourth were from funds outside of thrifts and banks. Early estimates of $100 to $200 billion in All Savers Certificates appear reasonable, including the estimate that one-fourth of the funds will come from new savings and from non-depository institutions.

Commercial banks have not suffered net outflow of deposits. They reported an increase of $4.6 billion in August. This was $2.4 billion above July and 15% above the figure one year ago. The commercial banks, although still not making mortgage loans on the scale of the Savings and Loans have recently been making mortgage loans at a faster growth rate than Savings and Loans and Mutual Savings Banks.

With the outflow of deposits from thrifts and short-term rates on the rise, mortgage rates were high and climbing during the summer. Late in September, mortgage lenders were bidding record yields for Fannie Mae commitments. The Federal Home Loan Bank Board's monthly survey for September showed lenders asking a record 17.7% for fixed rate conventionals. This was the survey's seventh consecutive month reporting an increase. As short term rates continue to decline, mortgage rates should fall from the record levels in October.

Non-traditional sources have now become a more important source of mortgage finance than thrifts and banks. Assumptions, seller acceptance of first or second mortgages and loans from relatives, mostly at interest rates averaging 13 to 14%, were responsible for 1.5 million of the 2.0 million sales (at annual

rates) in September and October. Creative financing therefore accounts for three-quarters of all house sales today, up from one-third just 12 months ago

With deposits growing at the depository institutions with the assistance of the All Savers Certificate, and short-term rates declining through the rest of the year, mortgage rates at financial institutions should decline until early next year. By year end, mortgage rates should be 15% to 16% and below 15% by mid-1982.

Residential Real Estate

During the long slide into recession, the housing market declined from 4 million to 2 million existing home sales and from 2 million to 0.9 million housing starts by September, as mortgage interest rates set a new record of 17.75%. After adjusting for demographic conditions, this has been the greatest drop since the great depression of the 1930's.

Since the slump in existing home sales started in September 1978, 2.7 million families lost the opportunity to acquire or upgrade their housing, five times worse than any other business cycle in 40 years.

Median existing home prices are only 5.5 percent higher than one year ago. After adjusting for consumer price increases prices have declined by about 5%. Further adjustment to reflect seller costs to provide financing at below market rates of interest, means real housing prices have declined by 8 to 10%, the greatest drop in 40 years.

The closing months of 1981 should turn upward slightly as mortgage interest rates decline, returning home sales to the levels at the beginning of the year. During 1982, housing sales should increase to 2.7 million existing home sales as interest rates decline and incomes rise. During 1983, home sales should climb to 3.5 million units as incomes rise faster and interest rates hold steady or modestly decline.

New home starts can be expected to follow a similar profile of small improvement after November until spring and accelerating to 1.5 million units in the second half of 1982 and 1.8 million units during 1983.

Commercial and Industrial Real Estate

The boom in commercial and industrial construction has stalled and can be expected to improve only slowly after mid-1982. The growth rate should slowly return to the high levels experienced during 1979 in 1983 and 1984 as shortages of structures and equipment become more prevalent and interest rates are lower.

Table 1

U.S. ECONOMIC OUTLOOK — NOVEMBER 1981

	QUARTERS								YEARS				
	Actual			Forecast					Actual		Forecast		
	81:1	81:2	81:3	81:4	82:1	82:2	82:3	82:4	1979	1980	1981	1982	1983
AGGREGATE ECONOMY													
Gross National Product ($ billions)	2,853	2,886	2,947	2,992	3,044	3,133	3,249	3,363	2,414	2,626	2,920	3,197	3,597
Percent Change	19.2	4.7	8.8	6.3	7.1	12.2	15.7	14.7	12.0	8.8	11.2	9.5	12.5
Percent Change (without inflation)	8.6	-1.6	-0.6	-3.4	0.1	4.3	6.6	4.9	3.2	-0.2	1.8	1.1	4.1
Consumption	5.8	-2.1	4.3	0.3	2.9	2.8	5.6	4.5	2.9	0.5	2.8	2.7	3.7
Durables	24.1	-23.3	15.3	-3.4	8.7	7.4	23.1	13.7	0.2	-7.4	4.5	6.5	8.6
Nondurables	4.6	2.7	1.4	-1.6	1.8	2.3	2.5	1.5	2.6	1.1	2.3	1.3	2.2
Services	1.4	1.6	3.5	3.1	1.9	1.8	3.6	4.0	4.1	2.6	2.8	2.6	3.4
Residential Investment	-3.2	-22.8	-33.3	-11.4	12.5	12.7	50.5	37.1	-5.2	-18.6	-4.5	3.4	28.3
Nonresidential Investment	13.4	-2.2	-0.2	-3.2	0.4	3.3	6.7	6.1	6.5	-3.0	1.6	1.1	5.0
Structures	16.6	6.7	6.8	-0.6	-0.6	-0.2	1.3	0.7	8.7	-0.1	4.6	1.1	2.9
Equipment	11.8	-5.9	-3.6	-4.3	0.9	5.0	9.2	8.5	5.5	-4.2	0.3	1.1	5.9
Exports	13.6	-2.4	-8.6	0.2	0.0	2.6	5.2	4.0	15.2	9.6	-0.7	0.1	4.3
Imports	10.3	14.3	10.8	2.0	5.7	5.9	8.3	8.8	6.0	-0.1	6.4	6.7	6.5
Government Purchases	5.3	-5.5	-0.6	0.2	-2.9	-2.4	3.8	-1.0	1.5	2.9	0.1	-1.2	-0.3
Consumption (% of GNP)	63.3	63.2	64.0	64.6	65.1	64.8	64.7	64.6	62.8	63.2	63.8	64.8	64.6
Residential Investment (% of GNP)	3.4	3.2	2.9	2.8	2.9	2.9	3.2	3.4	4.0	3.2	3.0	3.1	3.8
Nonresidential Investment (% of GNP)	10.7	10.7	10.7	10.7	10.7	10.7	10.7	10.7	11.0	10.7	10.7	10.7	10.8
Inventory Change ($ billions)	4.5	23.3	17.6	-1.3	-10.8	9.2	12.1	18.8	17.5	-5.9	11.0	7.3	22.3
Mfg. Capacity Utilization Rate (%)	80	80	79	77	76	77	79	79	86	79	79	79	80
Manufacturing Industrial Production (% change)	7.5	2.9	0.0	-8.6	-0.9	8.2	12.9	7.2	4.6	-4.5	3.1	1.8	6.0
Employment (millions)	98.0	98.9	98.7	98.6	98.8	99.5	100.1	101.0	96.9	97.3	98.5	99.8	102.8
Unemployment Rate (%)	7.3	7.4	7.2	8.2	8.3	8.2	8.0	7.8	5.8	7.1	7.5	8.1	7.4
Auto Sales (millions of units)	10.1	7.8	9.3	8.0	8.8	9.2	10.2	10.7	10.6	9.0	8.8	9.7	10.7
Disposable Income per Household (average)	25,251	25,682	26,325	27,015	27,463	28,068	29,361	30,113	21,565	23,748	26,068	28,749	32,071
Percent Change -- Year Ago (w/o inflation)	0.3	1.9	1.4	1.7	1.0	1.3	3.5	3.5	-2.2	-0.1	1.3	2.3	3.8
Total Taxes per Household (average)	13,341	13,382	13,549	13,687	13,913	14,280	14,468	14,901	11,106	12,057	13,490	14,390	15,429
Percent Change -- Year Ago	13.3	14.6	12.2	7.9	4.3	6.7	6.8	8.9	10.5	8.6	11.9	6.7	7.2
Household Debt as Percent of Disposable Income	77.9	78.1	77.5	76.5	76.6	76.1	74.1	73.6	80.2	79.4	77.5	75.1	72.8
Consumer Price Inflation (CPI)	10.8	7.5	11.9	10.7	6.8	8.0	9.2	8.5	11.3	13.5	10.5	8.8	8.4
Gross National Product Inflation (GNP Deflator)	9.8	6.4	9.4	10.1	7.0	7.6	8.5	9.4	8.5	9.0	9.2	8.3	8.1
Personal Consumption Inflation	8.0	6.5	9.1	8.0	7.5	7.3	8.2	7.5	8.9	10.2	8.3	7.8	7.4
Residential Construction Inflation	10.1	5.7	5.9	6.0	9.2	9.7	11.1	10.9	12.8	9.4	6.7	8.4	10.8
Nonresidential Construction Inflation	5.1	14.1	8.6	7.1	10.0	10.1	11.6	11.2	12.6	13.4	9.3	9.8	11.1
Producers Price Inflation (WPI)	9.5	8.9	4.7	4.9	7.4	8.8	10.6	10.3	12.5	14.1	9.4	7.5	10.2
Compensation per Manhour (% change)	11.4	9.8	9.3	9.1	10.1	9.4	9.7	9.4	9.7	9.9	10.1	9.6	9.3
Productivity (% change)	4.1	0.8	-2.3	-1.5	0.4	1.9	3.0	2.2	-0.7	-0.3	1.0	0.4	2.0
Unit Labor Cost (% change)	6.9	8.9	11.9	10.8	9.6	7.4	6.5	7.1	10.4	10.3	9.0	9.1	7.2
Unit Capital Cost (% change)	10.8	10.2	9.5	8.8	8.3	8.0	7.8	7.7	11.3	11.3	9.8	8.0	7.9
Before Tax Corporate Profits ($ billions)<1>	286	260	242	237	234	253	272	291	255	258	256	262	303
Corporate Tax Liability	88	76	69	67	65	72	79	86	88	82	75	75	87
'Windfall Profits' Tax Receipts	29	31	27	28	28	29	29	30	0	13	29	29	31
Inventory Valuation Adjustment	-39	-24	-27	-21	-28	-35	-39	-39	-43	-46	-28	-35	-38
Capital Consumption Adjustment	-15	-15	-13	-14	-11	-15	-20	-24	-16	-17	-14	-17	-28
After Tax Profits	169	153	146	142	141	152	163	175	168	163	152	158	185
Profits from Current Production (with IVA, CCA)	115	114	105	107	102	101	104	112	109	100	110	105	119
Adjusted for Inflation (81:1 base)	115	112	101	100	94	92	93	97	126	107	107	94	99
Percent Change - Year Ago	-1.1	6.9	-3.3	0.0	-18.5	-18.1	-8.2	-3.3	-1.6	-15.7	0.6	-12.4	5.3
Per Unit of Output (% of GNP)	4.0	4.0	3.6	3.6	3.3	3.2	3.2	3.3	4.5	3.8	3.8	3.3	3.3
Effective Corporate Tax Rate (%)<1>	43	41	41	39	40	42	43	44	45	45	41	42	43
Federal Tax Receipts (Unified basis)	541	735	619	567	569	831	674	636	481	533	615	677	736
Federal Expenditures (Unified basis)	669	670	667	720	732	732	755	782	509	601	681	750	815
Surplus or Deficit (Unified basis)	-128	65	-47	-154	-163	99	-82	-146	-28	-68	-66	-73	-79

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

Table 2

REAL ESTATE AND FINANCIAL MARKETS — NOVEMBER 1981

	QUARTERS								YEARS				
	Actual			Forecast					Actual		Forecast		
	81:1	81:2	81:3	81:4	82:1	82:2	82:3	82:4	1979	1980	1981	1982	1983
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,543	2,600	2,283	2,181	2,334	2,613	2,765	2,917	3,701	2,881	2,402	2,657	3,515
Percent Change - Year Ago	-15.4	5.5	-25.3	-27.2	-8.2	0.5	21.1	33.7	-4.2	-22.2	-16.6	10.6	32.3
Dollar Volume (billions)	193.3	204.7	182.4	174.1	189.4	217.5	235.7	252.2	237.6	209.6	188.6	223.7	322.4
New Single-Family Home Sales (thousands)	510	445	362	317	339	373	406	435	709	531	408	388	510
Percent Change - Year Ago	-4.1	-1.5	-39.8	-41.5	-33.6	-16.1	12.1	37.3	-13.2	-25.1	-23.2	-5.0	31.5
Private Housing Starts (thousands)	1,391	1,176	966	973	1,181	1,294	1,481	1,600	1,745	1,292	1,126	1,389	1,795
Single-Family	874	783	610	616	759	872	993	1,070	1,194	852	721	924	1,200
Multi-Family	517	393	361	356	422	422	489	530	551	440	407	465	595
Subsidized	136	156	155	157	161	163	165	161	120	156	151	163	150
Mobile Home Shipments (thousands)	248	255	223	203	211	222	238	251	276	224	232	230	279
Housing Inventory (millions)	84.2	84.4	84.6	84.7	84.8	84.9	85.1	85.3	82.8	83.7	84.5	85.0	86.0
New Construction Put In Place - (value)													
New Commercial Buildings (% Change)	54.1	-5.7	5.9	-7.5	1.5	6.9	7.2	11.9	33.8	21.7	9.7	2.1	13.5
New Industrial Buildings (% Change)	78.1	12.7	71.2	-22.3	-13.8	-13.1	4.9	10.4	37.2	-6.7	18.5	-2.5	9.3
Rental Vacancy Rate (%)	5.2	5.0	5.1	5.0	5.0	5.0	4.8	4.8	5.4	5.4	5.1	4.9	5.0
Unsold New Homes (% of sales)	65.8	74.0	77.8	71.3	67.7	65.1	60.2	56.6	59.3	70.2	72.2	62.4	53.1
Office Vacancy Rate (%)<1>	3.8	4.1	4.4	4.3	4.3	4.2	4.0	3.9	4.4	3.7	4.1	4.1	3.8
Industrial Vacancy Rate (%)<1>	3.8	3.6	3.7	3.8	3.7	3.6	3.6	3.5	3.0	3.5	3.7	3.6	3.4
Existing Home Prices - Median ($1000's)	64.3	66.4	67.8	68.2	69.8	72.0	74.0	75.3	55.7	62.2	66.7	72.8	80.1
Percent Change - Year Ago	9.4	7.7	5.2	7.7	8.5	8.3	9.2	10.3	14.1	11.7	7.5	9.1	10.0
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	667	721	787	759	729	726	735	741	433	588	734	733	789
Percent of Household Income	27	28	30	28	27	26	25	25	20	25	28	26	25
New Home Prices - Median ($1000's)	67.2	69.2	70.6	71.6	73.4	75.3	77.6	80.0	62.7	64.9	69.7	76.6	86.4
Percent Change - Year Ago	5.6	9.1	7.3	7.7	9.1	8.8	10.0	11.6	12.5	3.4	7.4	9.9	12.8
New Home Prices--Mean ($1000's, Quality Adjusted)	83.3	85.3	85.8	87.1	90.8	93.1	93.9	95.6	71.4	78.5	85.4	93.3	102.1
Percent Change - Year Ago	10.3	8.8	7.2	8.5	9.0	9.1	9.4	9.8	14.8	10.1	8.7	9.3	9.4
FINANCIAL MARKETS													
Total Time and Savings Deposits (% change)	13.1	3.1	5.3	6.4	7.7	9.4	8.9	8.5	8.6	7.5	8.5	7.4	8.6
Savings Rate (%)	4.6	5.4	4.9	5.7	5.1	5.1	6.5	6.3	5.3	5.6	5.1	5.7	6.8
Money Supply (M1B) (% change)	5.2	9.1	0.7	5.1	3.6	4.7	9.7	5.9	7.8	6.3	7.0	5.0	5.6
Money Supply (M2) (% change)	9.7	11.0	7.6	9.2	6.8	6.5	8.8	9.8	8.9	8.9	9.9	8.0	8.6
New Mortgage Commitments ($ billions)	78.2	69.3	70.9	71.6	74.7	80.3	84.4	89.7	129.0	87.1	72.5	82.3	107.0
Percent Change - Year Ago	-9.7	45.1	-40.2	-25.1	-4.5	15.8	19.0	25.3	-8.8	-32.5	-16.8	13.5	30.0
Mortgage Debt Outstanding ($ billions)	1,473	1,504	1,530	1,562	1,601	1,639	1,670	1,704	1,266	1,401	1,517	1,653	1,805
Homeowners' Equity ($ billions)	2,827	2,903	2,960	3,022	3,094	3,168	3,256	3,364	2,611	2,750	2,928	3,220	3,689
Selected Interest Rates (Percent													
New Home Mortgage Commitment Rate	15.40	16.16	17.33	16.57	15.50	14.96	14.71	14.58	11.27	14.00	16.36	14.94	14.59
Corporate Bond Rate (AAA)	13.16	13.98	14.57	15.10	15.07	14.84	14.56	14.26	9.63	11.94	14.20	14.68	13.52
Rate on Money Market Fund Shares	15.67	16.51	17.48	14.44	14.24	16.18	16.78	15.62	11.12	12.89	16.02	15.70	14.06
Commercial Paper Rate	15.34	16.15	16.77	13.99	13.98	15.95	16.49	15.34	10.97	12.66	15.56	15.44	13.83
Prime Rate	19.21	18.93	20.32	17.30	16.00	17.83	18.74	18.04	12.67	15.27	18.94	17.65	16.14
Federal Funds Rate	16.57	17.78	17.58	14.02	13.20	15.43	16.26	15.57	11.19	13.36	16.49	15.11	13.77

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

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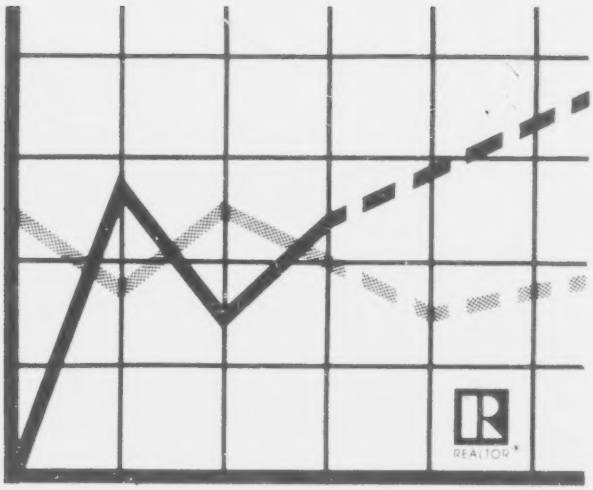
OUTLOOK FOR THE ECONOMY AND REAL ESTATE



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December 1981

U.S. ECONOMIC AND REAL ESTATE OUTLOOK

More signs of the current recession in the U.S. appeared in November as consumer spending, industrial production and investment all declined. However, the downturn in economic activity has caused inflation to slow and interest rates--and especially short-term interest rates--to plummet, which should soon be followed by a modest drop in mortgage rates. After an average recession, recovery should begin in the spring, led by housing, autos, defense spending and exports.

The General Economy

After showing virtually no growth in the July to September period, the economy has entered another recession in the final quarter of 1981--the eighth recession since the war. Almost all sectors of the economy have now joined the housing sector in experiencing declining activity. Consumer spending, especially on cars and other durable goods, is falling despite the small cuts in personal income taxes which took effect on October 1. Business investment in new equipment is also contracting as the impact of high interest rates and prospects for slower growth until next spring offset any stimulus from recent tax law changes. In addition, businesses are starting to reduce inventories in the face of declining sales which will further depress output during the final three months of the year. The housing industry continues to be the hardest hit sector as a further 6% drop in residential investment is likely in the last quarter of 1981.

Overall output is expected to fall at a 6% annual rate during the October to December period--an average recession--before beginning to recover in the spring next year. The poor start next year will likely keep the growth in output to about 0.2% in 1982, significantly less than both the 1.8% achieved this year and the 3% average for the post-war period.

Led by an upturn in housing, autos and exports, next year's recovery should gather momentum in 1983 and push output growth to over 4%.

The unemployment rate rose sharply to 8.4% in November--up from 7.5% in September--to its highest level since the 1974-75 recession. Unemployment is expected to peak at around 8.8% by mid-1982 before starting to decline as the recovery gathers momentum in the second half of the year.

The short-term outlook for inflation provides one piece of encouraging news in the economy. Led by declines in home prices and stable mortgage interest rates and food costs, consumer prices rose at an annual rate of just 4.4% in October. With the expected decline in mortgage interest rates and with the recession putting some downward pressure on prices, inflation is expected to remain around 7% over the next few months. However, the underlying rate of inflation is still in the 9-10% range and as economic activity picks up in mid-1982 (and mortgage interest rates stop declining), inflation may accelerate again. Overall, consumer prices are expected to rise by almost 9% next year as

wage costs increase over 9% and productivity stagnates. Higher productivity growth in 1983 may take some pressure off unit labor costs, slowing inflation to moderate to at just over 8%. Even this modest progress in the inflation outlook could be jeopardized, however, if world oil prices start to accelerate again or if Congress accelerates the decontrol of domestic natural gas prices.

Federal Spending and Tax Policies

With almost a full quarter of the 1982 fiscal year gone, Congress has yet to finalize the appropriation (spending) bill for FY1982. Even when the second concurrent budget resolution is passed--with some additional minor spending cuts--this month, projected federal spending will still probably exceed $730 billion in FY1982, or nearly $35 billion, or 5%, more than originally planned. Meanwhile, the President is preparing to present the Administration's proposed FY1983 budget in January. The Administration is currently estimating next year's spending at $803 billion, with $854 billion officially forecast for FY1984. However, actual outlays will likely exceed these projections by as much as $60 billion in FY1984. Despite the widely publicized spending slowdowns in some areas proposed by the Administration and enacted by Congress, federal spending growth is clearly still out of control. Most of the "easy" non-defense outlay reductions have already been enacted and it will be difficult to achieve further slowdowns of the size necessary to bring down interest rates and revive the economy unless areas previously immune from the budget cutter's axe--such as defense and entitlement programs--are also reduced. The size of the task should not be underestimated--FY1982 spending needs to be reduced by nearly $35 billion and in FY1983 by over $60 billion--to move toward balancing in 1984, an objective the President has abandoned.

While federal spending continues to grow, the recession and the excessively large consumption-oriented tax cuts enacted by Congress earlier this year are eroding revenue growth. The Administration is currently forecasting total receipts of $622 billion this fiscal year--yielding a deficit of $109 billion. Nor will this deficit get smaller in subsequent years--the Administration is now forecasting a deficit of $150 billion in FY1983 and over $160 billion in FY1984.

With the prospects of massive deficits over the next three fiscal years, the Administration has been looking at various "revenue enhancement" measures to increase receipts. However, except for the increased revenue potentially available from accelerated decontrol of domestic natural gas prices, the revenues raised by most of these tax increases will do little to reduce these excessive future deficits.

Monetary Policy and Financial Markets

The recent dramatic declines in short-term interest rates primarily reflect the current recession (and consequent fall in loan demand) rather than a fundamental change in the Federal Reserve Board's tight monetary policies.

During November, the monetary authorities lowered the discount rate --the interest rate charged on bank borrowing from the Federal Reserve Board--from 14% to 12% in response to the significant drop in short-term market interest rates. The Federal Reserve Board has also indicated that it will allow a slightly faster growth in the broadly defined money supply (M2) during the final three months of the year in order to accomodate the increased public demand for All Savers Certificates. However, there has been no indication that the monetary authorities will ease their tight monetary policies for next year. The Federal Reserve Board is expected to keep the broadly defined money stock (M2) 1982 growth target at this year's 6-9% range. This would mean that time and savings deposits--the prime source of mortgage money--could be constrained to 4-6% growth next year.

As the current recession has deepened, the most dramatic declines have been in short term interest rates. Since mid-October, the prime rate has fallen from 18.5% to its current level of 15.5%--a drop of 300 basis points. Short-term borrowing costs for banks (such as rates on 3-month certificates of deposits) have fallen even more from 16% to under 12%. Declines in long-term rates have been smaller--only about 1.5 percentage points for government bonds--mainly because of the prospects for massive increases in the federal deficit over the next 3 years. A flood of new corporate bond issues after mid-November as businesses tried to reduce their heavy reliance on short-term borrowing has also prevented corporate bond rates from declining as rapidly as short-term rates.

Despite continuing tight monetary policies, the downturn in economic activity will probably keep long-term interest rates declining through February or March next year. However, as the economy starts to recover in the spring, loan demand picks up and federal government borrowing increases, interest rates will start rising again. After reaching a low point of about 14% in the first quarter of 1982, the prime rate is expected to rise gradually to year end. The rate on long-term bonds is also forecast to rise from a low of 13.5% to 15.5% over the same period.

Mortgage Markets

After reaching record rates in October, mortgage rates finally began to decline during November. Yields on mortgages purchased by the Federal Home Loan Mortgage Corporation fell from 18.0% to 16.3%. With short-term market rates expected to continue to fall through the first quarter of 1982, mortgage rates will be falling as well. However, like other long-term rates, mortgage rates are unlikely to fall much below 14%. The thrift institutions, still the primary mortgage lenders, may not be willing to allow mortgage rates to fall too far while facing the risk of short-term rates rising again later in the year, even with the adjustable rate mortgage. There is also an avalanche of potential demand for mortgage credit waiting for rates to drop within an affordable range.

Thrift institutions continued to suffer declining net worth even in October after the All Savers Certificates were introduced. The list of troubled savings and loans more than tripled in the first half of 1981 before the Federal Home

Loan Bank Board halted the tally. During October, sales of the All Savers Certificates were estimated at between $16.5 billion and $17.5 billion and there was a net deposit inflow of $1.46 billion. This was the first net deposit inflow recorded since February. Unfortunately, the associations continued to post losses as net worth for the associations declined $766 million. Mutual savings banks sold nearly $4 billion worth of the All Savers Certificates and even though this greatly reduced the net outflow of deposits from the $1.7 billion they suffered in September, they still had a net reduction in deposits of $100 million.

Meanwhile, money market mutual funds continued to attract funds at a rapid rate. They increased by nearly $9 billion during the month of October as they compete with depository institutions for funds.

With rates as high as they were in October, mortgage lending by savings and loan associations declined to $1.6 billion for new and existing homes. This compares with the 1981 high of $3.15 billion in June and $5.12 billion in October 1980.

We expect that mortgage lending activity will improve starting in the first quarter when mortgage rates slip below 15 percent. Lending activity could double from the bad third quarter in 1981 to the second quarter in 1982 as mortgage rates are 14-15%.

Residential Real Estate

In the last three months, housing markets have deteriorated seriously. By October, existing home sales had fallen below a two million annual rate for the first time in 10 years. Since the housing market peaked in November 1978, home sales have plummeted by 52%. Over the cycle, 2.86 million sales with a total value of over $200 billion have been lost.

New housing construction is also suffering. In October, housing starts stood at a 857,000 unit annual rate--the lowest rate in the history of the series. The extremely depressed level of permits issued in October generates further pessimism for the closing months of 1981.

Housing prices--recently a scapegoat for increases in inflation-- continue to suffer. In October, the median price of existing single-family homes sold stood just 4% higher than a year earlier. This is the lowest rate of housing price appreciation observed since 1970. Since these prices are not adjusted for inflation and do not include costs of creative financing passed from seller to purchaser, the real price of single-family homes has dropped dramatically in recent months--perhaps by as much as 10 percent.

Fortunately, the downturn in the housing market may have reached bottom. After poor performance expected in November and December, the long, slow climb to the needed levels of existing home sales and housing construction should begin. Steady improvement can be expected during 1982. Around 2.6 million

existing homes and 1.3 million new homes (starts) should be sold next year. Further improvement is expected during 1983 to 3.4 million resales and 1.6 million starts despite renewed upward pressure on interest rates.

Renewed sales activity should bring some of the lustre back to housing price performance. By the latter part of 1982, home prices should be increasing to match general inflation or a bit faster--a tendency which should continue into 1983.

The implications of this lengthy housing cycle must not be overlooked. Housing starts of about 2 million units per year are needed during the 1980's. By the end of 1983 the total construction for the decade will be 3.2 million units below that needed. With construction capacity of only slightly above 2 million units per year, the deficit cannot be made up during the 1980's. Lack of construction coupled with poor resale performance severely restrict the mobility of the American workers, thereby crippling the efficient operation of the U.S. economy. Forcing the housing industry to absorb a disproportionate share of the burden during hard times means the entire economy will find it harder to return to normal operation.

Commercial and Industrial Real Estate

Commercial and industrial construction activity has generally weathered the storm of record interest rates significantly better than housing. The volume of new commercial and industrial buildings put in place in October was little changed from September and up 19% on a year ago. Even more encouragingly, the F.W. Dodge Index--an indicator of future activity--showed an 11% gain in construction contracts for commercial and industrial building in October.

While some modest declines in nonresidential construction from the record levels of early 1981 can be expected during the first half of next year, the impact of lower interest rates, the mid-year turnaround in economic activity and the effects of this year's depreciation law revisions should result in an upturn in commercial and industrial building in the second half of 1982 which should continue into 1983. This recovery in nonresidential construction is expected to be strongest in the industrial and small office building sectors.

Table 1

U.S. ECONOMIC OUTLOOK

DECEMBER 1981

	QUARTERS								YEARS				
	Actual			Forecast					Actual		Forecast		
	81:1	81:2	81:3	81:4	82:1	82:2	82:3	82:4	1979	1980	1981	1982	1983
AGGREGATE ECONOMY													
Gross National Product ($ billions)	2,853	2,886	2,957	2,979	3,024	3,101	3,209	3,328	2,414	2,626	2,919	3,166	3,587
Percent Change	19.2	4.7	10.2	3.1	6.2	10.6	14.7	15.6	12.0	8.8	11.1	8.5	13.3
Percent Change (without inflation)	8.6	-1.6	0.6	-6.1	-0.7	2.7	6.3	5.4	3.2	-0.2	1.8	0.2	4.4
Consumption	5.8	-2.1	4.0	-1.9	3.4	7.1	5.5	5.1	2.9	0.5	2.7	2.3	3.9
Durables	24.1	-23.3	11.5	-12.6	6.8	4.3	21.3	12.9	0.2	-7.4	3.4	2.8	8.5
Nondurables	4.6	2.7	1.7	-2.0	4.8	2.3	2.5	3.0	2.6	1.1	2.3	2.1	1.9
Services	1.4	1.6	3.7	1.7	1.3	2.0	3.5	4.3	4.1	2.6	2.7	2.3	4.1
Residential Investment	3.2	-22.8	-32.7	-27.1	-9.7	41.4	36.9	32.9	-5.2	-18.6	-5.4	-2.8	26.4
Nonresidential Investment	13.4	-2.2	4.3	-5.3	-3.4	0.2	2.8	7.4	6.5	-3.0	2.0	-0.7	6.2
Structures	16.6	6.7	6.7	-2.4	-7.0	-4.1	-1.2	3.0	8.7	-0.1	4.4	-1.8	3.7
Equipment	11.8	-5.9	3.2	-6.7	-1.7	2.2	4.7	9.3	5.5	-4.2	1.0	-0.2	7.3
Exports	13.6	-2.4	-7.9	-2.9	0.8	1.1	5.9	8.0	16.2	9.6	-0.8	-0.1	7.0
Imports	10.3	14.3	10.8	1.0	1.4	4.9	8.6	9.4	6.0	-0.1	6.3	5.3	7.1
Government Purchases	5.3	-5.5	-1.5	-0.8	-1.5	-0.8	0.2	-4.3	1.5	2.9	-0.1	-1.5	-1.1
Consumption (% of GNP)	63.3	63.2	63.8	64.5	65.1	65.1	65.0	64.9	62.8	63.2	63.7	65.0	64.7
Residential Investment (% of GNP)	3.4	3.2	2.9	2.7	2.6	2.8	3.0	3.2	4.0	3.2	3.0	2.9	3.5
Nonresidential Investment (% of GNP)	10.7	10.7	10.8	10.8	10.7	10.6	10.6	10.6	11.0	10.7	10.7	10.6	10.8
Inventory Change ($ billions)	4.5	23.3	24.3	4.8	-10.8	-5.5	6.8	17.4	17.5	-5.9	14.2	2.0	21.3
Mfg. Capacity Utilization Rate (%)	80	80	79	75	75	75	77	78	86	79	79	76	79
Manufacturing Industrial Production (% change)	7.5	2.9	0.3	-12.1	0.2	6.7	12.7	11.3	4.6	-4.5	2.6	0.3	7.6
Employment (millions)	98.0	98.9	98.7	97.7	98.0	98.4	99.3	100.2	96.9	97.3	98.3	99.0	102.4
Unemployment Rate (%)	7.3	7.4	7.2	8.6	8.7	8.8	8.5	8.1	5.8	7.1	7.6	8.5	7.6
Auto Sales (millions of units)	10.1	7.8	9.1	7.7	8.2	8.4	9.2	9.7	10.6	9.0	8.7	8.9	9.9
Disposable Income per Household (average)	25,251	25,682	26,345	26,965	27,417	27,964	29,189	30,001	21,565	23,748	26,061	28,643	32,269
Percent Change -- Year Ago (w/o inflation)	0.3	1.9	1.5	1.4	0.7	0.8	2.9	3.5	2.2	-0.1	1.3	2.0	4.6
Total Taxes per Household (average)	13,341	13,382	13,641	13,351	13,588	13,907	13,968	14,434	11,106	12,057	13,429	13,974	15,229
Percent Change -- Year Ago	13.3	14.6	12.9	5.2	1.9	3.9	2.4	8.1	10.5	8.6	11.4	4.1	9.0
Household Debt as Percent of Disposable Income	77.9	78.1	77.5	76.7	76.7	76.2	74.0	73.3	80.2	79.4	77.6	75.1	71.3
Consumer Price Inflation (CPI)	10.8	7.5	11.9	7.6	8.1	7.7	8.4	8.8	11.3	13.5	10.3	8.5	8.2
Gross National Product Inflation (GNP Deflator)	9.8	6.4	9.5	9.8	6.9	7.7	7.9	9.7	8.5	9.0	9.2	8.2	8.5
Personal Consumption Inflation	8.0	6.5	9.1	8.1	7.7	7.5	7.3	7.4	8.9	10.2	8.4	7.8	7.7
Residential Construction Inflation	10.1	5.7	5.8	5.4	9.7	9.9	10.7	10.6	12.8	9.4	6.7	8.4	11.0
Nonresidential Construction Inflation	5.1	14.1	8.8	7.6	10.3	10.3	11.2	11.0	12.6	13.4	9.3	10.0	11.5
Producers Price Inflation (WPI)	9.5	9.2	4.4	1.5	8.4	8.5	9.5	9.8	12.5	14.1	9.2	6.9	10.2
Compensation per Manhour (% change)	11.4	9.8	9.3	9.2	9.5	9.1	9.3	9.1	9.7	9.9	10.1	9.2	9.3
Productivity (% change)	4.1	1.6	-2.4	-2.7	-1.1	1.5	2.9	2.5	-0.7	-0.3	1.1	-0.2	2.2
Unit Labor Cost (% change)	6.9	8.3	11.8	12.7	11.1	7.8	6.5	6.9	10.4	10.3	9.0	9.8	7.3
Unit Capital Cost (% change)	10.8	10.2	9.5	8.8	8.2	7.8	7.5	7.3	11.3	11.3	9.8	7.7	7.6
Before Tax Corporate Profits ($ billions)<1>	286	260	260	228	225	239	262	285	255	258	258	253	318
Corporate Tax Liability	88	76	77	64	63	68	76	85	88	82	76	73	94
'Windfall Profits' Tax Receipts	29	31	29	28	28	29	29	30	0	13	29	29	31
Inventory Valuation Adjustment	-39	-24	-26	-14	-26	-33	-36	-38	-43	-46	-26	-33	-42
Capital Consumption Adjustment	-15	-15	-13	-14	-11	-15	-19	-24	-16	-17	-14	-17	-28
After Tax Profits	169	153	154	136	134	143	156	170	168	163	153	151	192
Profits from Current Production (with IVA, CCA)	115	114	114	108	98	95	101	109	109	100	113	101	122
Adjusted for Inflation (81:1 base)	115	112	110	102	91	86	90	95	126	107	110	90	101
Percent Change - Year Ago	-1.1	6.9	4.9	1.3	-21.5	-23.3	-17.9	-7.1	-1.6	-15.7	2.9	-17.7	11.8
Per Unit of Output (% of GNP)	4.0	4.0	3.8	3.6	3.2	3.1	3.1	3.3	4.5	3.8	3.9	3.2	3.4
Effective Corporate Tax Rate (%)<1>	43	41	41	38	40	42	43	44	45	45	41	42	44
Federal Tax Receipts (Unified basis)	541	735	627	542	544	802	635	603	481	533	611	646	723
Federal Expenditures (Unified basis)	669	670	661	716	732	734	755	782	509	601	679	751	827
Surplus or Deficit (Unified basis)	-128	65	-34	-174	-188	67	-120	-179	-28	-68	-68	-105	-104

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

Table 2

REAL ESTATE AND FINANCIAL MARKETS — DECEMBER 1981

	QUARTERS								YEARS				
	Actual			Forecast					Actual		Forecast		
	81:1	81:2	81:3	81:4	82:1	82:2	82:3	82:4	1979	1980	1981	1982	1983
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,543	2,600	2,283	1,968	2,195	2,531	2,635	2,885	3,701	2,881	2,349	2,562	3,413
Percent Change - Year Ago	-15.4	5.5	-25.3	-34.3	-13.7	-2.6	15.4	46.6	-4.2	-22.2	-18.5	9.1	33.2
Dollar Volume (billions)	193.3	204.7	182.0	155.6	175.8	209.7	223.6	248.5	237.6	209.7	183.9	214.4	313.2
New Single-Family Home Sales (thousands)	510	444	362	363	399	447	495	505	709	531	420	461	555
Percent Change - Year Ago	-4.1	-1.8	-39.9	-32.9	-21.8	0.7	36.9	39.1	-13.2	-25.1	-21.1	10.0	20.3
Private Housing Starts (thousands)	1,391	1,176	969	831	1,096	1,260	1,376	1,467	1,745	1,292	1,092	1,300	1,648
Single-Family	874	783	652	474	693	836	948	1,009	1,194	852	696	871	1,136
Multi-Family	517	393	317	357	403	424	429	458	551	440	396	429	512
Subsidized	136	156	155	157	161	163	165	161	120	156	151	163	150
Mobile Home Shipments (thousands)	248	255	244	196	206	221	233	243	276	224	236	226	255
Housing Inventory (millions)	84.2	84.4	84.6	84.7	84.8	84.9	85.1	85.3	82.8	83.7	84.5	85.0	85.9
New Construction Put In Place - (Value)													
New Commercial Buildings (% Change)	54.1	-5.5	13.6	-18.3	-11.6	-9.9	20.8	29.5	33.8	21.7	9.8	-3.5	22.5
New Industrial Buildings (% Change)	78.1	13.1	65.6	-18.2	-12.3	-12.8	31.1	31.8	37.2	-6.7	18.4	2.6	29.9
Rental Vacancy Rate (%)	5.2	5.0	5.0	5.0	5.0	5.0	4.8	4.8	5.4	5.4	5.1	4.9	4.9
Unsold New Homes (% of sales)	65.8	74.2	88.4	94.7	89.0	81.5	76.3	68.5	59.3	70.2	80.8	78.8	61.4
Office Vacancy Rate (%)<1>	3.8	4.1	4.4	4.3	4.3	4.2	4.0	3.9	4.4	3.7	4.1	4.1	3.7
Industrial Vacancy Rate (%)<1>	3.8	3.6	3.7	3.8	3.7	3.6	3.6	3.5	3.0	3.5	3.7	3.6	3.4
Existing Home Prices - Median ($1000's)	64.3	66.4	67.8	67.7	69.0	71.7	73.7	75.1	55.7	62.2	66.6	72.4	80.1
Percent Change - Year Ago	9.4	7.7	5.2	6.9	7.2	7.9	8.8	10.9	14.4	11.7	7.3	8.7	10.7
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	667	721	787	798	726	732	764	799	433	588	744	755	832
Percent of Household Income	27	28	30	30	27	26	27	27	20	25	29	27	26
New Home Prices - Median ($1000's)	67.2	69.0	70.5	71.3	73.1	75.1	77.3	79.5	62.9	64.5	69.5	76.2	86.0
Percent Change - Year Ago	5.6	8.9	7.2	7.1	8.7	8.7	9.5	11.6	12.9	2.7	7.2	9.7	12.8
New Home Prices--Mean ($1000's, Quality Adjusted)	83.3	85.3	85.8	87.1	90.6	92.7	93.5	95.0	70.9	78.7	85.4	93.0	101.5
Percent Change - Year Ago	10.3	8.8	7.2	8.5	8.8	8.7	9.0	9.1	14.2	11.0	8.7	8.9	9.2
FINANCIAL MARKETS													
Total Time and Savings Deposits (% change)	13.1	3.1	5.3	7.6	9.7	10.7	11.1	10.1	8.6	7.5	8.6	8.7	9.2
Savings Rate (%)	4.6	5.4	5.1	6.0	5.4	5.2	6.5	6.5	5.3	5.6	5.3	5.9	7.5
Money Supply (M1B) (% change)	4.9	9.1	0.4	2.9	4.5	4.5	6.5	6.0	7.8	6.3	6.8	4.3	4.9
Money Supply (M2) (% change)	8.5	11.1	8.3	9.5	6.9	6.4	7.4	7.9	8.9	8.9	9.7	7.8	7.5
New Mortgage Commitments ($ billions)	78.2	69.3	46.2	72.4	89.2	97.6	102.0	104.7	129.0	87.1	66.5	98.4	112.3
Percent Change - Year Ago	-9.7	45.1	-61.0	-24.3	14.0	40.7	120.9	44.6	-8.8	-32.5	-23.6	47.8	14.2
Mortgage Debt Outstanding ($ billions)	1,473	1,503	1,530	1,566	1,603	1,640	1,673	1,701	1,266	1,401	1,518	1,654	1,787
Homeowners' Equity ($ billions)	2,827	2,897	2,956	3,013	3,079	3,151	3,234	3,342	2,611	2,750	2,923	3,202	3,667
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	15.40	16.16	17.33	17.60	15.25	14.50	14.88	15.05	11.27	14.00	16.62	14.92	15.39
Corporate Bond Rate (AAA)	13.16	13.98	14.92	14.98	14.38	13.71	13.50	13.64	9.63	11.94	14.26	13.81	13.37
Rate on Money Market Fund Shares	15.67	16.51	17.21	13.04	12.30	13.49	15.85	17.52	11.12	12.89	15.61	14.79	16.49
Commercial Paper Rate	15.34	16.15	16.77	12.85	12.00	13.09	15.40	17.02	10.97	12.66	15.28	14.38	16.12
3 Month Treasury Bill Rate	14.39	14.91	15.05	11.21	10.89	12.27	14.08	15.37	10.07	11.43	13.89	13.15	14.70
Prime Rate	19.21	18.93	20.32	16.40	14.00	15.20	17.14	18.29	12.67	15.27	18.72	16.16	17.84
Federal Funds Rate	16.57	17.78	17.58	13.01	12.13	13.51	15.85	17.50	11.19	13.36	16.23	14.75	16.39

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

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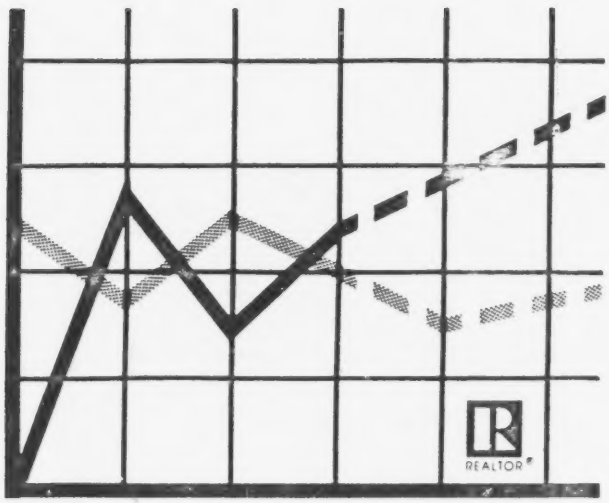
OUTLOOK FOR THE ECONOMY AND REAL ESTATE



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January 1982

U.S. ECONOMIC AND REAL ESTATE OUTLOOK

The current recession is showing signs of bottoming by spring and the economy should begin a modest but sustained recovery by summer through 1983 and 1984. Both inflation and short-term interest rates should trend downward until summer and then move upward in the fall and winter reflecting a collision of increasing Federal quarterly- deficit borrowing, increasing borrowing by households for housing and automobiles, and borrowing by business for inventories and plant equipment. This collision will be made more intense by stingy growth of money supply. The resulting high and fluctuating interest rates will limit growth in output, jobs, incomes, and profits beginning the second half of 1982 and continuing through 1983 and 1984.

The Current Recession and Recovery in Historic Perspective

The economy slipped into an average post-war recession during the final three months of 1981 as output fell significantly. A modest decline in real gross national product can be expected through spring because of depressed housing construction and sales, auto manufacturing sales and declining exports driven by over-valued dollars (which in turn is caused by high interest rates), and declining business investment in inventories, structures, and equipment. The decline in real output matches the average 2.5 percent experienced in previous recessions during the last 35 years.

The primary impetus for summer growth will come from the second round of personal income tax rate cuts and increases in social security payments scheduled for July, secondary stimulus should come from the acceleration of defense spending. This fiscal stimulus should mainly boost consumer spending for consumer durables and housing followed by business equipment. However, investment in housing and business investment is expected to be modest during the recovery as interest rates accelerate again in the fall of 1982, remain high in subsequent years, and fluctuate widely.

The Federal Reserve Board is likely to relax money growth until after November, 1982 in recognition of its delegation of authority from the Congress which is running for reelection. The greatest acceleration of interest rates should come during next fall and winter and restrict overall growth below the levels achieved in an average recovery. Gross national product adjusted for inflation can be expected to grow at about a 4 percent annual rate in the second half of 1982 and 1983 compared to a 7 percent growth in the average recovery. In the mid-1980's growth should slow further as the economy hits against the twin resource constraints of slower growth in the labor force and inadequate investment.

As the labor force grows 1.5 percent during 1982 and output declines to only grow modestly, unemployment should remain high at 9 percent. However, the unemployment rate should begin to decline by November, which should limit the loss of Republican members of the U.S. House of Representatives to 10 to 20. Unemployment should continue to drop to 8 percent during 1983 but not reach 7 percent before the next recession -- a much higher path of unemployment than during any other cycle. Business investment can be expected to just keep up with the pace of the overall economy -- maintaining about 10-1/2 percent of the gross national product. The additional savings expected from tax relief will be siphoned off to finance the larger federal deficits.

Consumer price inflation, which had dropped from 13.5% in 1980 to 10.3% in 1981 should drop to nearly 8% in 1982, lower in the first half than in the second half. Much of the improvement was due to special factors, including more stable mortgage rates, lower food prices from good harvests, lower energy prices, and lower import prices. Also the current accumulation of unsold inventories has squeezed profit margins and lowered sales prices. Inflation should average less than 8 percent until summer and average 8 to 9 percent as the recovery occurs.

Slowdowns in inflation of this magnitude have been typical during previous recessions and have resulted in accelerating inflation as the recovery gathered momentum often to set new records. The underlying rate of inflation currently remains stubbornly stuck near 9 percent. Compensation per worker -- a key influence on production costs -- is expected to grow over 9 percent a year during the next two years, if it follows the historical pattern of catching-up past declines in purchasing power. Productivity growth will likely average 2% following the recession through 1984 and help keep inflation from accelerating and to decline modestly.

Unfortunately, the next most likely forecast is higher inflation in 1983 and 1984, not lower, as the current world oil inventories are reduced and OPEC production is restrained, as Congress accelerates the decontrol of natural gas, as the Administration enacts excise taxes, and if food harvests return to average or below average.

The current recession is reducing corporate profits. Althrough profit figures are somewhat distorted by the accounting treatment of last year's tax changes, corporate profits from current production should remain low until summer and show modest improvement until 1983 or possibly 1984. Profits per unit of output should continue depressed at 3 to 3-1/2 percent of the Gross National Product instead of an historic current-production profit of 4 to 5 percent. The effective tax rate on corporate profits can be expected to start rising again in late 1982 as inflation and higher interest rates offset much of the impact of the 1981 corporate tax rate cuts. This, in addition to high interest rates, should continue to restrain investment in new plant and equipment.

Foreign Trade and the Economy

The economic performance of many of our major trading partners over the past two years has been even worse than in the United States. Industrial production in Western Europe stagnated in 1980 before falling over 2 percent last year. 1981 was also a poor year for Japan, as industrial production grew only 2.6 percent, much lower than the post-war average in Japan of 11.5 percent. As economic growth picks up in both Europe and Japan this year and continues into 1983, the U.S. could normally be expected to enjoy faster export growth. Unfortunately, record short term interest rates in the U.S. over the past two years have caused exchange rates for the dollar against major trading partners to appreciate too rapidly. This will undermine the competitiveness of U.S. exports and boost U.S. imports. In turn, this will slow export growth and make the 1982 recession in the U.S. deeper than otherwise.

Monetary Policy, Budget Deficit, Inflation and Interest Rates

Since 1979, the Federal Reserve Board has pursued a monetarist approach to fighting inflation by tightly limiting the growth of money and credit. With the Fed's calls for slower government spending growth and smaller deficits to complement its monetary policies going largely unheeded by the Federal Government, tight credit growth has had only a small effect on inflation. Rather, monetary policy has helped to produce record interest rates which have crippled housing and other interest sensitive industries and caused the current recession.

The Fed's tight credit policy has been aimed at lowering inflation and inflationary expectations and thereby lowering interest rates. However, long run interest rates have been driven up to an increased premium over expected inflation by stingy credit growth targets and rising federal deficits. Historically, long run interest rates have tracked about 3 percentage points above the underlying inflation rate, but during the past two years, have doubled and averaged 7 percent above anticipated inflation.

Unfortunately, there is no reason to expect high real interest rates will drop significantly during 1982 and possibly 1983. Only the temporary relief from high inflation and some reduction in interest rates will occur as the economy reaches its low point this spring. This is likely to prove temporary as interest rates trend upward by winter. Nor can much relief from high interest rates be expected from the "supply side" economic policies adopted by the Federal government last year. The tax relief enacted last year was too heavily directed at consumption stimulating reductions in personal tax rates (72 percent) and is insufficiently targeted at boosting savings and investment (28 percent), while the spending slowdowns too small and the increases in the deficit too large for any supply side impacts to lower interest rates.

The excessively tight credit growth policies which are helping produce these record rates are not the best way to fight inflation either. There is enough evidence to suggest that most of the impact of a modest increase in credit growth such as a 1 percent faster growth in money supply on top of the Federal Reserve Board's target for 1982 and extended in 1983 and 1984 would result in 0.75 percentage point faster real economic growth and only 0.25 percentage point growth in prices. This modest acceleration in inflation could be more than fully offset by reducing the Government deficit by $30 billion. The resulting lower interest rates would spur investment in industry and housing and would insure greater productivity growth and less housing shortage, which in the longer-run could actually reduce underlying inflation. This is not to say that a large burst in the growth of money supply would not have a major inflationary consequence; rather, if limited to a modest 1 to 2 percentage points faster growth in the money supply, real incomes and output could be higher without pushing up inflation.

The Outlook for Interest Rates

The Federal Reserve Board can be expected to be cautious in achieving their stringent targets until after the November 1982 election. However, with the large

seasonal borrowing of the Federal government at the annual rate of $200 billion during next winter and stricter money growth management after the election, short-term interest rates could approach the record levels of this autumn and long-term rates could increase 1 to 2 percentage points.

The President could take advantage of next winter's run-up of interest rates following the November election to advocate slower growth of Government entitlement and defense programs and major increases in excise taxes. This would reduce the Federal deficit in 1983 from $150 billion plus down to $80 to $130 billion for fiscal years 1983 and 1984.

Historically, short-term interest rates fell by about one-fourth during recessions. Now, with the two-year Federal Reserve policy, rates fluctuate more widely -- by one-half from peak to trough (more than 10 percentage points). Moreover, fluctuations are much more frequent and not necessarily tied to recessions. Preliminary analysis shows that more interest-rate-sensitive sectors, such as housing, suffered one-third of their 1981 decline from greater fluctuation in interest rates and two-thirds from the higher average level of interest rates.

Short-term interest rates may decline modestly until the spring. Long-term rates may decline modestly to the summer as has been the case in past recessions, but will not fully decline until fiscal and monetary policy are working together.

Mortgage Markets

Deposits in thrift institutions suffered net outflows during 1981 and may do so during 1982. The hoped-for improvement which was evident in October but was reversed by November, occurred because of fluctuations in the interest rates and their impact on interest rates paid for All Savers Certificates. The yield on All Savers Certificates dropped from a high of 12.60 percent in October to 8.34 percent causing a slowdown in deposit inflows. In October, mutual savings banks gained $4 billion in new All Savers deposits compared to only 0.8 billion in November. Savings and loans gained $16.5 billion in October and only $2.5 billion in November. However, the rate on the certificates has now rebounded to over 10 percent which should boost inflows into the All Savers Certificates.

Financial institutions, including thrifts, should expect significant inflows from the wider eligibility of the Individual Retirement Accounts during 1982. Increased inflows to thrifts could double the rate of mortgage commitments from what occured during the last half of 1981.

Commercial bank holdings of mortgages are expected to increase at an average annual rate of 5.5 percent during the first half of 1982 (down from 8 percent in 1981), but increase more rapidly during the second half.

Although these modest improvements in mortgage flows from traditional lenders will provide some boost to housing this year, the availability of mortgage funds will remain tight. The Fed's strict monetary policies mean that small time and savings deposits at major financial institutions will be restricted to less than 5 percent

growth in 1982 -- not enough to allow a marked increase in the volume of new loans. This will maintain pressure on current homeowners to provide a substantial amount of seller financing when selling existing homes.

Housing

Housing sales and construction should improve slowly through the spring and accelerate through 1983, except for the pause likely to be created by higher interest rates next winter. This anemic improvement comes from the bottom of the worst housing recession since the 1930's. Both housing starts and existing sales are less than half of the pace in 1978, certainly less than half of the underlying demographic demand for housing, as indicated by the expanding proportion of young households. Rental vacancies are back to a historically low 5 percent.

The housing recession has dampened the growth of home prices during the last year. From twelve months ago, median existing home prices increased by only 4.7 percent and new home prices by only 7.5 percent. And, after adjusting for inflation, prices have declined by a greater amount than in any other period since the Great Depression.

Existing home sales can be expected to increase from 1.9 million to an average 2.5 million in 1982, up 30 percent but still at least 30 percent below the underlying demographic demand. However, improvement which starts in 1982 should continue in 1983 when housing starts should be approaching 1.7 million and existing home sales 3.5 million, still below demographic demand and not enough to take care of the backlog.

After a few more months of modest home price increases, home prices can be expected to increase at the pace of overall inflation, perhaps somewhat higher to reflect the mounting housing shortage. Because of high interest rates, higher utility bills and high home prices causing mortgage payments to increase, homeowners, especially new home owners, can be expected to increase the proportion of their income spent on housing -- which has been the trend in this country for the last ten years and is drawing the United States more in line with the proportion of household budgets spent on housing in several other indusurial countries.

Commercial and Industrial Real Estate

Typically the nonresidential real estate investment cycle lags housing investment by one year and lags the aggregate economy by a lesser time. Accordingly, we can expect commercial and industrial real estate markets to be depressed for the greater part of 1982. Also, the stimulus of tax relief will be offset by high interest rates. The value of commercial construction put in place began to decline in the final period of 1981 and is expected to trend further downward until mid-1982, when a rally should commence. Industrial construction remained strong through year-end, but is expected to begin three quarters of decline during the opening months of 1982.

Reduced construction activity will also tighten office and industrial space availability. By 1983, a vacancy rate of 3.4 percent could prevail in industrial buildings and 3.8 percent in office buildings. Office availability should be tight at that level. During 1984, vacancy rates should ease somewhat as construction projects begun in late 1982 and early 1983 come into use.

Table 1

U.S. ECONOMIC OUTLOOK

JANUARY 1982

	QUARTERS							YEARS					
	Actual	Forecast						Actual		Forecast			
	81:3	81:4	82:1	82:2	82:3	82:4	83:1	1979	1980	1981	1982	1983	1984
AGGREGATE ECONOMY													
Gross National Product ($ billions)	2,965	2,982	3,009	3,079	3,183	3,288	3,384	2,414	2,626	2,921	3,140	3,537	3,940
Percent Change	11.4	2.3	3.7	9.7	14.2	13.8	12.3	12.0	8.8	11.2	7.5	12.7	11.4
Percent Change (without inflation)	1.4	-6.6	-2.8	2.0	5.8	3.8	3.6	3.2	-0.2	1.9	-0.6	3.9	3.4
Consumption	3.3	-2.4	1.6	3.6	4.4	3.8	3.8	2.9	0.5	2.5	1.7	3.8	3.1
Durables	8.6	-20.8	11.8	8.0	20.0	11.0	8.2	0.2	-7.4	2.5	2.2	9.6	5.8
Nondurables	2.1	1.4	-0.2	-0.3	1.2	2.0	3.7	2.6	1.1	2.6	0.9	2.5	2.1
Services	2.6	0.8	0.2	5.5	2.5	3.0	2.6	4.1	2.6	2.5	2.1	3.1	3.0
Residential Investment	-36.3	-16.9	-3.2	42.2	42.2	30.1	26.9	-5.2	-18.6	-5.4	1.1	25.3	7.2
Nonresidential Investment	7.1	-11.9	-7.7	-1.4	1.4	2.5	4.0	6.5	-3.0	1.9	-3.6	3.8	5.2
Structures	8.4	-0.6	-10.8	-9.8	-6.0	0.0	1.2	8.7	-0.1	4.8	-4.2	0.3	4.6
Equipment	6.3	-16.7	-6.3	2.7	4.9	3.6	5.3	5.5	-4.2	0.7	-3.3	5.3	5.4
Exports	-3.4	-5.2	-3.5	-0.6	3.6	6.1	1.7	15.2	9.6	-0.3	-1.8	3.6	7.9
Imports	5.3	5.9	-0.9	3.2	7.2	8.1	6.6	6.0	-0.1	6.0	4.4	6.7	5.8
Government Purchases	-1.6	-1.0	-0.9	-1.6	0.5	-4.0	-0.4	1.5	2.9	-0.1	-1.5	-0.6	0.7
Consumption (% of GNP)	63.5	64.2	64.9	65.2	65.0	65.0	65.0	62.8	63.2	63.6	65.0	65.0	64.8
Residential Investment (% of GNP)	2.8	2.7	2.7	3.0	3.2	3.4	3.6	4.0	3.2	3.0	3.1	3.7	3.8
Nonresidential Investment (% of GNP)	10.8	10.7	10.5	10.4	10.3	10.3	10.3	11.0	10.7	10.7	10.4	10.4	10.5
Inventory Change ($ billions)	27.5	14.5	-5.5	-10.0	5.1	14.2	17.3	17.5	-5.9	17.5	0.9	20.6	27.0
Mfg. Capacity Utilization Rate (%)	79	75	73	73	75	76	77	86	79	78	74	78	80
Auto Sales (millions of units)	9.1	7.4	8.0	8.5	9.3	9.8	9.9	10.6	9.0	8.6	8.9	10.0	10.4
Manufacturing Industrial Production (% change)	0.4	-16.7	-5.5	3.5	10.4	9.3	7.9	4.6	-4.5	2.6	-2.2	7.4	5.3
Common Market	-3.3	5.1	4.1	3.1	3.2	4.8	4.3	4.7	0.3	-2.6	2.8	3.3	2.5
Japan	6.7	2.9	5.7	4.7	2.5	3.6	4.1	8.2	6.8	2.6	4.1	3.9	3.7
Employment (millions)	98.7	98.0	97.8	98.0	98.7	99.3	100.2	96.9	97.3	98.4	98.4	101.5	104.3
Unemployment Rate (%)	7.2	8.4	9.0	9.2	9.0	8.9	8.6	5.8	7.1	7.6	9.0	8.3	7.7
Disposable Income per Household (average)	26,349	26,893	27,334	27,869	29,106	29,862	30,609	21,565	23,748	26,044	28,543	31,874	35,130
Percent Change -- Year Ago (w/o inflation)	1.5	1.1	0.4	0.5	2.7	3.4	4.1	2.2	-0.1	1.2	1.8	3.7	2.8
Total Taxes per Household (average)	13,651	13,340	13,480	13,791	13,848	14,277	14,679	11,106	12,057	13,428	13,849	15,049	16,281
Percent Change -- Year Ago	13.0	5.1	1.0	3.1	1.4	7.0	8.9	10.5	8.6	11.4	3.1	8.7	8.2
Percent of Disposable Income	51.8	49.6	49.3	49.5	47.6	47.8	48.0	51.5	50.8	51.6	48.5	47.2	46.3
Household Debt as Percent of Disposable Income	77.6	77.1	76.8	76.5	74.5	74.2	74.2	80.2	79.4	77.7	75.5	74.1	74.7
Consumer Price Inflation (CPI)	11.9	8.6	7.1	7.3	8.2	8.7	9.0	11.3	13.5	10.3	8.2	8.4	8.5
Gross National Product Inflation (GNP Deflator)	9.9	9.4	6.7	7.5	7.9	9.6	8.4	8.5	9.0	9.2	8.1	8.5	7.7
Personal Consumption Inflation	9.1	8.1	7.3	7.3	7.3	7.7	8.5	8.9	10.2	8.4	7.6	7.7	7.2
Residential Construction Inflation	7.1	5.6	9.4	9.5	10.4	10.9	11.6	12.8	9.4	6.9	8.4	10.9	9.1
Nonresidential Construction Inflation	8.6	6.9	9.8	9.8	10.8	11.2	12.2	12.6	13.4	9.3	9.6	11.3	9.4
Producers Price Inflation (WPI)	4.5	1.3	6.7	8.0	9.2	10.5	11.1	12.5	14.1	9.2	6.3	10.1	9.6
Compensation per Manhour (% change)	9.3	8.5	9.7	9.2	9.4	9.7	9.8	9.7	9.9	10.1	9.3	9.5	9.3
Productivity (% change)	-2.0	-3.4	-2.2	1.6	2.8	2.5	1.7	-0.7	-0.3	1.1	-0.5	2.1	1.8
Unit Labor Cost (% change)	11.1	12.4	12.1	7.5	6.4	7.0	8.0	10.4	10.3	8.9	9.9	7.3	7.3
Unit Capital Cost (% change)	9.5	8.8	8.3	7.8	7.4	7.1	6.9	11.3	11.3	9.8	7.6	7.1	8.2
Before Tax Corporate Profits ($ billions)<1>	263	228	213	228	253	276	284	255	258	259	243	308	349
Corporate Tax Liability	78	64	57	63	72	81	82	88	82	77	68	90	98
'Windfall Profits' Tax Receipts	29	28	28	29	29	30	30	0	13	29	29	31	33
Inventory Valuation Adjustment	-25	-13	-22	-32	-38	-43	-49	-43	-46	-25	-34	-48	-50
Capital Consumption Adjustment	-13	-14	-11	-15	-20	-25	-23	-16	-17	-14	-18	-31	-33
After Tax Profits	156	136	128	137	151	165	172	168	163	154	145	187	217
Profits from Current Production (with IVA, CCA)	118	109	95	90	94	97	101	109	100	114	94	108	134
Adjusted for Inflation (81:3 base)	118	107	92	85	87	88	90	131	111	115	88	93	107
Percent Change - Year Ago	8.3	2.1	-23.6	-27.2	-25.9	-17.5	-2.3	-1.6	-15.7	3.9	-23.7	6.1	14.8
Per Unit of Output (% of GNP)	4.0	3.7	3.2	2.9	3.0	3.0	3.0	4.5	3.8	3.9	3.0	3.1	3.4
Effective Corporate Tax Rate (%)<1>	41	38	39	42	44	45	45	45	45	41	42	45	43
Federal Tax Receipts (Unified basis)	627	542	538	796	630	595	610	481	533	611	640	712	787
Federal Expenditures (Unified basis)	661	712	732	734	755	784	804	509	602	678	751	823	914
Surplus or Deficit (Unified basis)	-34	-170	-194	62	-126	-188	-194	-28	-69	-67	-111	-111	-127
% of GNP	-1.2	-5.7	-6.4	2.0	-4.0	-5.7	-5.7	-1.2	-2.6	-2.3	-3.5	-3.1	-3.2

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

Table 2

REAL ESTATE AND FINANCIAL MARKETS

JANUARY 1982

	QUARTERS							YEARS					
	Actual	Forecast						Actual		Forecast			
	81:3	81:4	82:1	82:2	82:3	82:4	83:1	1979	1980	1981	1982	1983	1984
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,283	1,976	2,092	2,406	2,609	2,911	3,108	3,701	2,881	2,351	2,504	3,547	4,166
Percent Change - Year Ago	-25.3	-34.1	-17.7	-7.5	14.2	47.3	48.6	-4.2	-22.2	-18.4	6.5	41.7	17.4
Dollar Volume (billions)	182.0	153.0	166.9	198.6	221.3	252.3	275.5	237.6	209.7	183.2	209.8	328.2	420.0
Existing Home Prices - Median ($1000's)	67.8	66.3	68.7	71.5	73.7	73.2	76.2	55.7	62.2	66.2	71.8	79.5	87.0
Percent Change - Year Ago	5.2	4.7	6.8	7.6	8.8	10.4	10.9	14.4	11.7	6.7	8.5	10.8	9.4
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	788	786	712	736	789	805	795	433	590	741	760	803	836
Percent of Household Income	30	30	26	27	28	28	27	20	25	29	27	26	25
New Single-Family Home Sales (thousands)	357	324	378	436	499	496	501	709	531	409	452	561	742
Percent Change - Year Ago	-40.6	-40.1	-25.9	-1.7	39.7	53.1	32.7	-13.2	-25.1	-23.1	10.7	24.0	32.4
New Home Prices - Median ($1000's)	70.6	71.5	73.3	75.2	77.4	79.7	82.3	62.9	64.5	69.6	76.4	86.1	95.2
Percent Change - Year Ago	7.4	7.5	9.0	9.0	9.6	11.5	12.2	12.9	2.7	7.3	9.8	12.7	10.5
New Home Prices--Mean ($1000's, Quality Adjusted)	85.8	86.7	90.2	92.6	93.4	94.5	98.4	70.9	78.7	85.3	92.7	101.3	110.9
Percent Change - Year Ago	7.2	8.0	8.3	8.6	8.9	9.0	9.1	14.2	11.0	8.6	8.7	9.3	9.5
New Mortgage Commitments ($ billions)	47.9	54.3	67.3	86.4	98.5	116.4	122.7	129.0	87.1	62.4	92.1	126.9	151.4
Percent Change - Year Ago	-59.5	-43.2	-13.9	24.6	105.4	114.3	82.2	-8.8	-32.5	-28.3	47.5	37.7	19.3
Mortgage Debt Outstanding ($ billions)	1,530	1,560	1,592	1,627	1,670	1,713	1,754	1,266	1,401	1,517	1,651	1,816	2,023
Homeowners' Equity ($ billions)	2,957	3,018	3,091	3,167	3,252	3,355	3,468	2,611	2,750	2,925	3,216	3,656	4,134
Housing Inventory (millions)	84.6	84.7	84.8	84.9	85.0	85.2	85.4	82.8	83.7	84.5	85.0	85.8	87.0
Private Housing Starts (thousands)	968	872	1,008	1,206	1,323	1,489	1,573	1,745	1,292	1,102	1,256	1,657	1,757
Single-Family	652	545	652	825	894	1,006	1,041	1,194	852	713	844	1,108	1,141
Multi-Family	316	327	356	381	428	483	532	551	440	388	412	549	616
Subsidized	92	157	161	163	165	161	157	175	173	115	163	150	125
Mobile Home Shipments (thousands)	244	191	198	214	238	256	270	276	224	235	227	273	276
Rental Vacancy Rate (%)	5.0	5.0	5.0	5.0	4.8	4.8	4.8	5.4	5.4	5.1	4.9	4.9	5.0
Unsold New Homes (% of sales)	89.5	86.6	86.7	82.9	76.8	67.3	59.8	59.3	70.2	79.0	78.4	55.2	61.8
Office Vacancy Rate (%)<1>	4.4	4.3	4.3	4.2	4.0	3.9	3.9	4.4	3.7	4.1	4.1	3.8	4.0
Industrial Vacancy Rate (%)<1>	3.7	3.8	3.7	3.6	3.6	3.5	3.5	3.0	3.5	3.7	3.6	3.4	3.6
New Commercial Building Construction (% Ch Value)	12.8	-18.5	-6.0	-4.4	18.4	23.9	19.2	33.8	21.7	9.7	-1.6	19.2	19.4
New Industrial Building Construction (% Ch Value)	67.9	15.8	-29.1	-29.6	15.5	19.2	28.9	37.2	-6.7	21.4	-2.5	22.2	31.2
FINANCIAL MARKETS													
Personal Savings Rate (%)	5.2	6.1	5.8	5.4	7.0	7.0	6.8	5.3	5.6	5.3	6.3	7.1	7.7
Money Supply (M1b) (% change)	0.2	4.7	4.6	3.8	8.7	4.8	4.8	7.8	6.3	6.9	4.7	5.3	4.6
Money Supply (M2) (% change)	7.3	11.6	10.2	7.1	9.2	9.2	8.5	8.9	8.9	9.7	9.4	8.5	8.3
Total Time and Savings Deposits (% change)	5.4	6.6	7.4	11.0	11.8	11.5	10.3	8.6	7.5	8.5	8.2	10.4	9.2
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	17.35	17.71	15.37	15.29	15.91	16.36	15.50	11.27	14.00	16.65	15.73	14.98	14.20
'People-to-People' Mortgage Rate	13.00	12.80	12.50	12.10	12.30	12.50	12.70	NA	11.25	13.15	12.35	11.90	11.70
Corporate Bond Rate (AAA)	14.92	15.09	14.47	13.78	13.52	13.60	13.52	9.63	11.94	14.29	13.84	13.25	12.16
Government Bond Rate	15.61	13.90	12.52	12.26	13.01	13.51	13.02	9.62	11.51	14.29	12.82	12.54	11.38
Federal Funds Rate	17.58	13.43	11.17	10.54	12.38	13.62	13.54	11.19	13.36	16.34	11.93	13.14	11.18
3 Month Treasury Bills	15.05	11.60	10.03	10.19	11.66	12.33	12.00	10.07	11.43	13.99	11.05	11.70	10.79
1 Year Treasury Bills	16.32	12.51	11.03	11.16	12.54	13.15	12.76	10.67	12.05	14.52	11.97	12.36	11.24
Commercial Paper Rate	16.77	12.65	10.55	10.85	12.77	13.65	13.28	10.97	12.66	15.23	11.95	12.88	11.64
Rate on Money Market Fund Shares	17.21	12.99	11.12	11.41	13.12	14.04	13.57	11.12	12.89	15.60	12.42	13.19	11.83
Prime Rate	20.32	16.95	14.09	13.00	14.75	15.42	15.17	12.67	15.27	18.85	14.31	14.76	13.64

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

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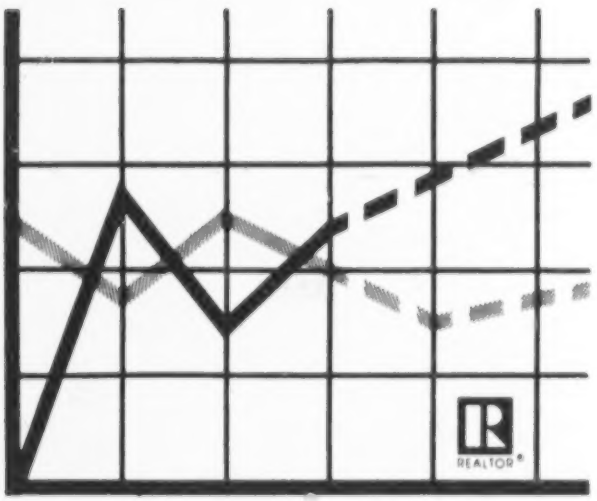
OUTLOOK FOR THE ECONOMY AND REAL ESTATE



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March 1982

U.S. ECONOMIC AND REAL ESTATE OUTLOOK

New evidence indicates the recession deepened during the first two months of the year and that the next recovery will occur late in the Summer and is likely to be only half the pace of normal recoveries as exploding federal deficits and too low money growth targets keep interest rates high and the dollar overvalued with respect to the currencies of our trading partners. Unless this continued poor economic performance results in a significant shift in economic policies that cause major reductions in the projected federal deficits, interest rates and the value of the dollar will remain high and severely limit improvements in housing and investment in new plant and equipment during the next three years.

The General Economy

Dramatic declines in housing construction, auto sales, investment in new equipment and exports all contributed to the sizeable 4.7% annualized decline in the nation's output of goods and services during the final three months of last year as record high interest rates continued to constrain economic growth.

Despite the modest improvement in auto sales during January and February, recent evidence suggests further declines in national output can be expected in the first half of 1982. Industrial production dropped 3% in January to a level nearly 10% below the peak achieved in July last year, while housing starts virtually stagnated at just under 900,000 units--almost 44% below a year ago and over 1 million below demographic demand. As long-term interest rates remain stubbornly high and the dollar overvalued on foreign exchange markets, new investment in nondefense industries and exports will decline during the first half of this year and housing activity will remain depressed!

Overall economic activity should start to pick up in the second half of 1982 as the second round of tax cuts for individuals and index increases in entitlement program payments boost consumer spending. However, even this moderate second half upturn will be less vigorous than during other post-war recoveries and will be insufficient to prevent national output for 1982 as a whole from declining by 1.5%.

The second half recovery should continue into next year, with the third annual slowdown next Winter caused by escalated interest rates during the high seasonal borrowing of the federal government. National output should increase by about 3% in 1983. After three years of below normal growth, this predicted improvement in economic activity next year is weak compared to other post-war recoveries.

The good news from the current recession is inflation has moderated substantially. Consumer prices rose only 0.3% in January and 0.4% in February--the smallest increases since July 1980. This left prices in February "just" 8.4% above a year earlier. Much of the improvement is due to special factors such as continued slow growth in food and energy prices, and to the severe downturns in house and car prices. Nevertheless, there are more

fundamental factors at work which may ensure a modest reduction in the long run inflation outlook over the next three years. Wage demands have recently moderated under the pressure of increasing unemployment and the poor outlook for future job growth. This slower growth of wages--averaging about 7.5% annually over the next two years compared with 9% in 1980 and 1981--coupled with relaxed work rules which improve productivity should help hold down unit labor costs and ultimately consumer prices.

Continued slower growth of world oil prices during the rest of 1982 and higher productivity increases as the recovery gathers momentum next year should also help hold down inflation. Consumer prices are predicted to increase just 7.0% this year and 8.3% in 1983-- still high, but significantly below the double-digit rates experienced since 1979.

While the moderation of inflation to single digits has been the main benefit from the current recession, this has already been accompanied by a significant increase in unemployment. The unemployment rate was 8.8% in February and is expected to average around 9% this year, an increase of 1.5 percentage points and 1,500,000 jobs from 1981. This will add over $5 billion to the federal budget from increased unemployment compensation claims and subtract over $15 billion from tax receipts.

The Federal Budget: An Overview

The Administration's proposed FY1983 budget offers little to reduce exploding federal deficits and take pressure off high interest rates.

Under the FY1983 budget, federal spending would increase to $757.6 billion, up 4.5% on 1982, and FY1983 taxes projected to increase to $666.1 billion. This would push the 1983 budget deficit to $91.5 billion ($107 billion if "off budget" items are included)--down only slightly from the record $98.6 billion deficit predicted for FY1982. According to the Administration's forecasts, the federal deficit will decline only slowly in later years, with an $82.9 billion deficit expected in FY1984 ($97.2 billion including "off budget" spending) and a $71.9 billion deficit projected in FY1985 ($82.8 billion including "off budget" spending).

Even this gloomy outlook for record federal deficits probably understates the true picture. Over the past three years, actual federal spending has exceeded initial Administration estimates by an average of over $42 billion each year (see Table 1) and there is considerable evidence that overruns of comparable magnitude are occurring this year. Also, some of the spending reductions proposed by the President are unlikely to be enacted by Congress, especially since they ignore the need to slow defense and some entitlement spending, but instead are concentrated in other areas which had already been trimmed in FY1982. In addition, the Administration's underestimates of next year's inflation, unemployment and interest rates will also push FY1983 spending above the levels currently projected by the President. Overall, this year's deficit is likely to reach $126 billion ($146 billion if "off budget" items are

included). The FY1983 deficit may be slightly higher at $148.3 billion ($164 billion if "off budget" items are included).

TABLE 1

OVERRUN IN FEDERAL SPENDING CONTRASTED
TO PRESIDENT'S ORIGINAL COMMITMENTS
(Dollars in Billions)

Fiscal Year	Initial (January) Budget Estimate	Actual Budget Spending	Spending Overrun	
			Percentage	Amount
1972	$229.2	$232.0	1.2	$2.8
1973	246.3	247.1	0.3	0.8
1974	268.7	269.6	0.3	0.9
1975	304.4	326.2	7.1	21.8
1976	349.4	366.4	4.9	17.0
1977	394.2	402.7	2.2	8.5
1978	440.0	450.8	2.4	10.8
1979	500.2	493.6	-1.3	-6.6
1980	531.6	579.6	9.0	48.0
1981	615.8	660.5	7.3	44.7
1982	695.3 (3/10/81)	May 15 -Congress 695.5e	0.0e	0.2e
		July 15 -President 704.8e	1.4e	9.5e
		Sept. 10 -CBO 723.0e	4.0e	27.7e
		Sept. 24 -President 709.3e	2.0e	14.0e
		Feb. 8 -President 729.2ef	4.9e	33.9e
		-REALTORS® 742.7ef	6.8e	47.4e
72-82 Average			3.7e	17.8e
1983	762.1f	Feb. 25 -CBO 785.1ef	1.7	13.0

e = estimate
f = adjusted for comparability by increasing $4.4 billion in 1983 and $3.9 billion in 1982 for SMI and VSI Insurance premiums excluded from spending figures starting in 1983 budget.

SOURCE: Budgets of the U.S. Government, First Concurrent Budget Resolution 1982, Congressional Budget Office Reports, and public statement of the President.

Deficits of this size place severe strains on capital markets, pushing up interest rates and crowding out housing and other interest sensitive investment. For example, both the FY1982 and FY1983 deficits will absorb over 100% of personal savings and about 27% of total private savings. This will be the largest share of personal savings (and investable funds) absorbed by the federal government in the U.S. since 1947 and is significantly higher than the corresponding shares in other major industrial countries (see Table 2).

TABLE 2

CENTRAL GOVERNMENT DEFICITS IN
MAJOR INDUSTRIAL COUNTRIES

Country	FY1982 Deficit 1/ $US billions	FY1982 Deficit 1/ % of Personal Savings in 1982 2/	Real Long-Term Interest Rates
United States	118.3 (145.5) 3/	100.2 (111.0)	7-8
Japan	31.8	18.3	2-3
West Germany	23.2	37.8	3.0
France	11.6	19.0	3.0
United Kingdom	15.6	62.5	5

1/ Federal deficit for U.S., general government current account deficits for calendar 1982 for all other countries.

2/ 1982 personal savings figures for all countries other than the U.S. supplied by Wharton Econometric Forecasting Associates.

3/ Figures in parenthesis are REALTOR® estimates.

Together with the Federal Reserve Board's excessively tight restrictions on the growth of credit, financing of the federal deficits of this size can only occur by pushing up both long and short term rates and stifling economic growth.

To bring the budget closer to balance and restore confidence to financial markets, the federal government must adopt a much more stringent control over spending. Federal outlays in FY1982 need to be reduced by at least $15 billion

and FY1983 outlays lowered by over $40 billion from the levels currently proposed by the President so that FY1983 outlays total less than $723 billion. Outlay reductions of this magnitude cannot be accomplished without including the "sacred cows" of defense spending and all entitlement programs in the areas to be trimmed. Even so, increased revenues will have to be raised to further lower next year's enormous deficit if significant interest rate reductions are to be achieved.

Any revenue increases, however, must not disproportionately harm the already meager savings and investment flows, but instead should impact primarily on consumer spending. This could be accomplished by, for example, deferring the 10% individual tax cuts scheduled for 1983. This could reduce the deficit by as much as $9 billion in FY1983. Increases in federal excise taxes and accelerated decontrol of domestic natural gas prices offer additional hope for lowering the deficits with only limited reduction of savings and investment.

With such a movement towards a much lower deficit, the Federal Reserve Board would be less restraining and allow significant reductions in interest rates, which would allow improvement in investment in housing and new plant and equipment. Long-term interest rates could fall by 2-3 percentage points next year, boosting housing starts in 1983 by over 500,000 units and resales of existing homes by over 1 million units.

Mortgage Markets

Mortgage rates moved sporadically, but generally fell during the month of February. Yields on mortgages purchased by the Mortgage Corporation moved from 17.7% at the beginning of February to 17.1% at the close of the month. Mortgage rates are expected to continue declining slowly with other market rates through the spring. However, there are factors that will keep them relatively high. First, as the rates fall, demand for mortgages will begin to outstrip supply because in a falling market, thrifts have increasing difficulty attracting deposits. Also, thrift deposits continue to flow more into the market rate yielding deposits and less to the regulated or subsidized rate deposits which keeps their average cost of funds high, despite the introduction of the All Savers Certificates. Finally, as their average cost of funds continues to squeeze their earnings margin from their average portfolio yeild, new mortgages will have to have a premium to compensate for the old low yielding mortgages. Mortgage interest rates could bottom near 15% by the Summer, but will begin to climb during the recovery as credit demands strengthen. New mortgage rates should be near 16.5% by year end.

The condition of thrifts continues to deteriorate. Savings and loans lost nearly $5 billion dollars in 1981 and a record $864 million in January. The poor outlook for thrift institutions has even prompted some regulatory officials to now seek public reassurance from the Administration that the FDIC and FSLIC will be fully backed by the U.S. Treasury.

Consistent with their deteriorating condition in 1981, Savings and Loan Associations showed a slowdown in both deposit growth and mortgage lending activity during January. Although deposit balances incrased by $1.8 billion, net new deposits declined $300 billion after deduction by $2.1 billion in interest credited. Market rate accounts increased with the 2-1/2 year variable ceiling certificates up by $5 billion. The inflow of funds into All Savers Certificates was again disappointing as they increased $1.1 billion. This brought the total to date to $20.9 billion held in these accounts in savings and loans.

Mutual savings banks saw a decline of $200 million in deposits in January with net new deposits declining by $1 billion. All Savers Certificates at mutual savings banks were up $300 billion to a total of $5.0 billion.

Mortgage lending by savings and loans was down in January to $2.3 billion from December's $3.7 billion. This was due more to the relatively large December number as January was more in line with October and November. New mortgage commitments were also down in January for savings and loans to $3 billion from $4.1 billion in December. Both commitments and lending activity were down more than seasonally for this time of the year.

Commercial bank deposits also were down an exceptional $23.2 billion on $527 billion total deposits during January. Commercial bank deposits had increased only $7 billion during all of 1981. The losses primarily came out of demand deposits as they fell $25.7 billion. Bank lending also declined during January as total loans and securities outstanding fell $8.4 billion. As reserves were squeezed, borrowing from the Federal Reserve reached more than $4 billion at the end of January from $436 million December 30th.

As mortgage rates fall, mortgage lending activity will improve. This will probably start during mid-April as mortgage rates approach 16%. However, continued inability of depository institutions to effectively compete for funds will continue to limit the growth of mortgage lending throughout the year.

Housing Activity

Just like the weather in much of the country, housing markets have been snowbound and frozen for the last several months. January was especially severe as existing home sales fell farther to a 1.8 million unit annual rate, while housing starts remained at 0.9 million units. Both measures are less than half that needed to adequately house the population.

As the Spring weather thaw approaches, housing markets likewise appear poised for a recovery. Long-term mortgage rates have declined slightly, and the further declines expected during the Spring and Summer should renew some interest by homebuyers. Optimism must be guarded, however, by the risk of new hikes in interest rates stopping the recovery before it gets underway. Moreover, the outlook is for a very gradual recovery path. Existing home sales will total roughly 2.4 million units during 1982, up 25% from current levels;

3.2 million in 1983, up 60% from current levels; and 3.7 million in 1984, up 105% from current levels. Even 1984, however, is not expected to exceed the 3.86 million normal market of 1978.

Housing starts are also expected to pick up during 1982, and to gain strength as the recovery continues. Approximately 1.1-1.2 million housing starts can be expected this year, with increases to 1.4-1.5 million in 1983 and 1.5-1.7 million in 1984.

The housing depression has removed the extreme inflation which had plagued the housing market in recent years. In January, existing home prices stood a mere 3.6% above a year earlier. This is noticeably below the year-to-year change in the CPI. New homes also have low levels of price change. Since housing prices are increasing less rapidly than inflation, the real cost of housing is declining. Moreover, prices are being kept higher because sellers are incurring direct expenses to provide the below-market financing which makes the transaction viable. This sluggish performance can be expected to continue while the market begins the long climb to recovery. However, by Spring of 1983, housing price appreciation can be expected to surpass the inflation rate, adding some luster to the investment aspect of the housing market. Very little change is expected, though, in the proportion of income which must be devoted to housing expenditures.

From the time that the housing cycle began to decline three years ago, approximately 3.2 million existing home sales with an aggregate value of $229 billion have been lost. In addition, approximately $250 billion in damage to the economy has been caused by the low levels of housing construction and the purchases usually made in conjunction with buying or selling a home. Because the cycle is still at the low point, these costs could double before the housing depression ends.

Commercial and Industrial Real Estate

The released figures for 1981 showed that construction in the U.S. had an increase solely on the strength of commercial construction. Contracts for commercial, industrial and institutional building increased 11% during 1981. Office building actually boomed during 1981 as there was 317 million square feet of new office space added. This was a record as the previous peak, in 1973, was only 195 million square feet.

Public construction, suffering from budget cuts on both the federal and state level totaled $53.5 billion during 1981. This was 3% below 1980 and down 7% in real terms. Continued high interest rates, tight government budgets for construction spending and selected oversupply of office space in some cities will combine to limit commercial and industrial construction during this year. However, after this year, governments and businesses will have improved financial positions after government fiscal policy changes and businesses consolidate. With building supply down from the slow construction activity over last year and this year, construction activity will show strong growth in 1983.

Table 3

U.S. ECONOMIC OUTLOOK

MARCH 1982

	QUARTERS							YEARS					
	Actual		Forecast					Actual			Forecast		
	81:3	81:4	82:1	82:2	82:3	82:4	83:1	1979	1980	1981	1982	1983	1984
AGGREGATE ECONOMY													
Gross National Product ($ billions)	2,965	2,995	2,996	3,035	3,120	3,224	3,313	2,414	2,626	2,925	3,094	3,433	3,790
Percent Change	11.4	4.2	0.2	5.3	11.7	14.0	11.5	12.0	8.8	11.4	5.8	10.9	10.4
Percent Change (without inflation)	1.4	-4.7	-5.4	-1.1	4.9	5.0	3.5	3.2	-0.2	2.0	-1.5	3.2	3.2
Consumption	3.3	-2.3	0.2	0.2	5.7	3.8	3.3	2.9	0.5	2.5	0.9	3.1	2.7
Durables	8.6	-18.8	7.5	-3.3	26.5	10.3	4.2	0.2	-7.4	2.6	0.2	5.9	3.9
Nondurables	2.1	-0.7	-1.8	-0.6	1.3	2.0	2.6	2.6	1.1	2.5	0.0	2.0	1.8
Services	2.6	1.9	-0.2	1.9	3.7	3.4	3.6	4.1	2.6	2.6	1.8	3.2	3.1
Residential Investment	-36.3	-28.2	-8.5	19.5	36.7	49.5	19.6	-5.2	-18.6	-6.1	-5.9	19.6	11.8
Nonresidential Investment	7.1	-5.3	-11.6	-4.9	0.7	3.1	4.5	6.5	-3.0	2.4	-4.0	3.5	5.7
Structures	8.4	4.5	-10.0	-11.9	-9.1	-6.4	0.4	8.7	-0.1	5.1	-4.3	-2.1	3.1
Equipment	6.3	-9.2	-12.5	-1.4	5.5	7.7	6.4	5.5	-4.2	1.2	-3.8	6.0	6.8
Exports	-3.4	-13.9	-3.5	1.1	2.8	3.5	4.7	15.2	9.6	-0.9	-3.5	4.2	4.8
Imports	5.3	-0.7	-1.1	1.6	6.4	9.0	7.4	6.0	-0.1	5.5	2.7	6.3	4.4
Government Purchases	-1.6	10.5	-7.5	-2.2	-1.2	-1.0	0.0	1.5	2.9	0.6	-1.3	-0.5	0.5
Consumption (% of GNP)	63.5	63.9	64.8	65.1	65.2	65.0	65.0	62.8	63.2	63.5	65.0	65.0	64.7
Residential Investment (% of GNP)	2.8	2.6	2.6	2.7	2.9	3.2	3.3	4.0	3.2	3.0	2.9	3.3	3.6
Nonresidential Investment (% of GNP)	10.8	10.8	10.6	10.5	10.4	10.4	10.4	11.0	10.7	10.7	10.5	10.5	10.8
Inventory Change ($ billions)	27.5	12.6	-4.9	-11.1	-6.1	6.1	9.9	17.5	-5.9	17.0	-4.0	11.3	18.5
Mfg. Capacity Utilization Rate (%)	79	75	70	71	73	75	76	86	79	78	72	76	77
Auto Sales (millions of units)	9.1	7.4	8.2	7.6	8.8	8.8	9.0	10.6	9.0	8.6	8.4	8.9	9.3
Manufacturing Industrial Production (% change)	0.3	-18.2	-20.9	2.4	13.8	13.0	7.7	4.6	-4.5	2.5	-5.4	7.6	4.8
Common Market	-2.6	4.4	1.8	3.1	4.3	4.3	3.3	4.7	0.2	-2.2	2.2	3.1	2.3
Japan	6.0	11.9	3.1	4.5	2.8	5.6	8.4	8.2	6.8	3.1	5.2	5.2	3.1
Employment (millions)	100.7	100.0	99.3	99.4	99.9	100.5	101.1	98.8	99.3	100.4	99.8	102.3	105.2
Unemployment Rate (%)	7.4	8.4	8.8	9.2	9.2	9.1	9.0	5.9	7.2	7.6	9.1	8.7	8.0
Disposable Income per Household (average)	26,349	26,878	27,153	27,559	28,523	29,217	29,876	21,565	23,748	26,040	28,113	30,923	33,656
Percent Change -- Year Ago (w/o inflation)	1.5	1.1	0.3	0.3	1.8	2.4	3.2	2.2	-0.1	1.2	1.2	3.0	2.1
Total Taxes per Household (average)	13,651	13,503	13,358	13,515	13,480	13,782	13,986	11,106	12,057	13,469	13,534	14,122	15,058
Percent Change -- Year Ago	13.0	6.4	0.1	1.0	-1.2	2.1	4.7	10.5	8.6	11.7	0.5	4.3	6.6
Percent of Disposable Income	51.8	50.2	49.2	49.0	47.3	47.2	46.8	51.5	50.8	51.7	48.2	45.7	44.7
Household Debt as Percent of Disposable Income	77.6	77.1	77.3	77.1	75.5	75.2	75.2	80.2	79.4	77.7	76.2	75.1	76.1
Consumer Price Inflation (CPI)	11.8	7.8	4.3	6.0	7.1	8.2	9.1	11.3	13.5	10.3	7.0	8.3	8.5
Gross National Product Inflation (GNP Deflator)	9.9	9.3	5.8	6.5	6.5	8.5	7.8	8.5	9.0	9.2	7.4	7.5	7.0
Personal Consumption Inflation	9.1	7.8	5.5	5.8	6.1	7.1	7.4	8.9	10.2	8.3	6.7	6.8	6.6
Residential Construction Inflation	7.1	6.4	8.9	6.8	8.7	10.2	10.3	12.8	9.4	6.9	7.7	9.6	8.9
Nonresidential Construction Inflation	8.6	10.7	9.1	8.1	8.9	10.3	10.9	12.6	13.4	9.5	9.5	10.0	8.8
Producers Price Inflation (WPI)	4.7	0.6	2.6	4.2	7.2	9.4	9.3	12.5	14.1	9.1	4.2	8.2	8.5
Compensation per Manhour (% change)	9.6	6.3	9.0	7.8	7.8	8.4	8.9	9.7	9.9	10.0	8.2	8.4	8.9
Productivity (% change)	-2.0	-7.4	-3.8	0.4	4.5	3.1	2.5	-0.7	-0.3	0.8	-1.7	2.4	1.6
Unit Labor Cost (% change)	11.5	15.0	13.3	7.4	3.2	5.1	6.2	10.4	10.3	9.1	10.1	5.8	7.1
Unit Capital Cost (% change)	9.5	8.8	8.3	8.0	7.7	7.5	7.3	11.3	11.3	9.8	7.9	7.4	8.1
Before Tax Corporate Profits ($ billions)<1>	263	227	206	203	218	235	245	255	258	259	215	253	284
Corporate Tax Liability	78	67	58	57	63	69	70	88	82	77	61	73	79
'Windfall Profits' Tax Receipts	29	26	26	24	25	26	24	0	13	29	25	23	26
Inventory Valuation Adjustment	-25	-22	-10	-15	-17	-21	-25	-43	-46	-28	-16	-24	-36
Capital Consumption Adjustment	-13	-13	-10	-7	-4	-2	2	-16	-17	-14	-6	3	5
After Tax Profits	156	134	122	122	131	140	151	168	163	153	129	157	179
Profits from Current Production (with IVA, CCA)	118	99	103	100	109	118	128	109	100	112	107	136	148
Adjusted for Inflation (81:3 base)	118	97	99	95	102	108	115	131	111	113	101	119	121
Percent Change - Year Ago	8.3	-6.8	-17.5	-18.9	-13.3	11.2	16.5	-1.6	-15.7	1.8	-10.6	17.8	1.7
Per Unit of Output (% of GNP)	4.0	3.3	3.4	3.3	3.5	3.7	3.9	4.5	3.8	3.8	3.5	4.0	3.9
Effective Corporate Tax Rate (%)<1>	41	41	37	37	38	38	36	45	45	41	38	36	36
Federal Tax Receipts (Unified basis)	627	589	524	720	585	567	571	481	533	623	599	648	710
Federal Expenditures (Unified basis)	661	782	709	722	706	770	788	509	601	695	727	799	853
Surplus or Deficit (Unified basis)	-34	-193	-185	-2	-122	-203	-217	-28	-68	-73	-128	-151	-144
% of GNP	-1.2	-6.4	-6.2	-0.1	-3.9	-6.3	-6.5	-1.2	-2.6	-2.5	-4.1	-4.4	-3.8

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

Table 4

REAL ESTATE AND FINANCIAL MARKETS

MARCH 1982

	QUARTERS							YEARS					
	Actual		Forecast					Actual			Forecast		
	81:3	81:4	82:1	82:2	82:3	82:4	83:1	1979	1980	1981	1982	1983	1984
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	2,253	1,923	1,981	2,137	2,489	2,837	2,973	3,701	2,881	2,351	2,361	3,185	3,675
Percent Change - Year Ago	-25.7	-34.6	-23.8	-18.8	10.5	47.5	50.1	-4.2	-22.2	-18.4	0.4	34.9	15.4
Dollar Volume (billions)	179.7	149.2	155.0	172.2	207.3	233.3	249.4	237.6	209.7	184.1	191.9	280.0	360.4
Existing Home Prices - Median ($1000's)	67.6	66.2	67.2	69.6	72.2	71.5	73.2	55.7	62.2	66.4	70.1	76.7	85.9
Percent Change - Year Ago	4.9	4.5	4.5	4.8	6.9	8.1	8.9	14.4	11.7	6.8	6.1	9.4	12.0
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	786	795	780	753	757	780	820	433	588	742	768	833	936
Percent of Household Income	30	30	29	28	27	27	28	20	25	29	28	28	29
New Single-Family Home Sales (thousands)	360	397	374	461	535	512	506	709	530	426	471	589	615
Percent Change - Year Ago	-40.2	-26.6	-26.6	3.9	48.9	28.8	35.2	-13.7	-24.5	-19.5	10.0	25.1	4.5
New Home Prices - Median ($1000's)	69.8	70.0	71.2	72.5	74.2	76.3	78.5	62.9	64.5	68.8	73.5	81.7	90.4
Percent Change - Year Ago	6.2	5.2	5.9	5.0	6.3	9.0	10.2	12.9	2.5	6.7	6.6	11.1	10.5
New Home Prices--Mean ($1000's, Quality Adjusted)	85.9	86.7	90.2	92.6	93.4	94.5	98.4	71.4	78.5	85.3	92.7	101.2	110.2
Percent Change - Year Ago	7.4	8.0	8.3	8.6	8.7	9.0	9.1	14.8	10.1	8.6	8.6	9.2	8.9
New Mortgage Commitments ($ billions)	47.9	42.5	45.6	61.9	87.3	86.2	80.9	129.0	87.1	59.5	70.2	69.1	112.9
Percent Change - Year Ago	-59.5	-55.6	-41.6	-10.8	82.1	102.8	77.3	-8.8	-32.5	-31.7	18.0	-1.7	63.5
Mortgage Debt Outstanding ($ billions)	1,525	1,555	1,589	1,622	1,660	1,696	1,729	1,266	1,401	1,512	1,642	1,780	1,948
Homeowners' Equity ($ billions)	2,946	2,984	3,028	3,065	3,114	3,190	3,280	2,611	2,750	2,913	3,099	3,439	3,880
Housing Inventory (millions)	84.6	84.7	84.8	84.8	84.9	85.1	85.3	82.8	83.8	84.5	84.9	85.6	86.4
Private Housing Starts (thousands)	962	871	899	986	1,189	1,363	1,316	1,745	1,292	1,085	1,109	1,374	1,629
Single-Family	644	540	602	650	822	974	909	1,194	852	706	762	944	1,178
Multi-Family	317	331	297	336	367	389	406	551	440	379	347	430	451
Subsidized	98	104	136	143	136	113	75	175	173	106	132	52	10
Mobile Home Shipments (thousands)	246	207	192	186	201	218	225	276	223	240	199	221	216
Rental Vacancy Rate (%)	5.0	5.0	5.0	4.9	4.8	4.8	4.7	5.4	5.4	5.0	4.9	4.7	4.5
Unsold New Homes (% of sales)	88.9	75.3	79.3	78.2	73.5	67.4	63.1	59.5	70.2	76.1	74.6	64.5	70.8
Office Vacancy Rate (%)<1>	4.4	4.8	5.0	5.0	4.9	4.9	4.8	4.4	3.7	4.3	5.0	4.6	4.2
Industrial Vacancy Rate (%)<1>	3.7	3.8	4.0	4.1	4.2	4.4	4.3	3.0	3.5	3.7	4.2	4.3	3.9
New Commercial Building Construction (% Ch Value)	12.5	0.5	-3.4	0.2	-1.7	2.6	14.0	33.8	21.7	11.1	0.3	10.3	14.9
New Industrial Building Construction (% Ch Value)	68.3	2.8	-17.9	-36.2	13.6	17.5	29.0	37.2	-6.7	20.5	-3.1	21.6	35.4
FINANCIAL MARKETS													
Personal Savings Rate (%)	5.2	6.1	5.9	6.2	7.0	7.0	6.9	5.3	5.6	5.3	6.5	7.4	8.0
Money Supply (M1b) (% change)	0.2	5.9	9.0	1.4	6.4	3.4	4.5	7.8	6.2	6.7	5.2	4.2	4.1
Money Supply (M2) (% change)	8.6	9.1	14.8	5.0	6.8	9.6	8.7	8.9	8.7	9.1	9.6	8.8	11.3
Total Time and Savings Deposits (% change)	6.7	6.2	7.1	9.2	9.7	9.2	9.2	8.6	7.5	8.7	7.6	8.9	7.6
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	17.35	17.95	17.31	16.10	15.58	16.23	16.68	11.27	14.00	16.71	16.30	16.16	16.22
'People-to-People' Mortgage Rate	13.00	12.80	12.50	12.10	12.30	12.50	12.70	NA	11.25	13.15	12.35	11.90	11.70
Corporate Bond Rate (AAA)	14.92	14.62	14.81	14.43	13.94	14.12	14.24	9.63	11.94	14.17	14.32	14.17	14.25
Government Bond Rate	15.61	14.11	14.39	12.45	12.30	13.11	13.56	9.62	11.51	14.34	13.06	13.37	13.15
Federal Funds Rate	17.58	13.59	14.70	12.32	12.76	14.33	15.18	11.19	13.36	16.38	13.53	15.87	14.74
3 Month Treasury Bills	15.05	11.75	13.40	11.28	11.67	12.79	13.47	10.07	11.43	14.03	12.28	14.02	13.32
1 Year Treasury Bills	16.32	13.55	14.77	12.39	12.56	13.31	13.79	10.67	12.05	14.78	13.26	14.07	13.46
Commercial Paper Rate	16.77	13.04	14.06	11.88	12.42	14.21	15.12	10.97	12.66	15.33	13.14	15.71	14.43
Rate on Money Market Fund Shares	17.21	13.31	14.42	12.13	12.67	14.50	15.43	11.12	12.89	15.68	13.43	16.01	14.71
Prime Rate	20.32	17.01	16.79	14.93	15.25	16.82	17.18	12.67	15.27	18.87	15.95	17.18	15.78

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

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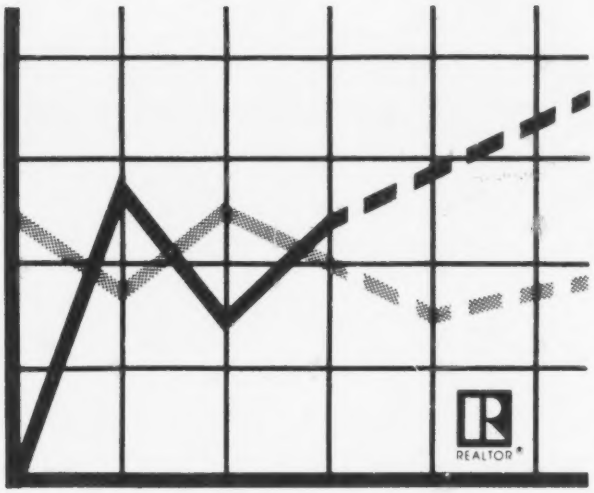
OUTLOOK FOR THE ECONOMY AND REAL ESTATE



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April 1982

U.S. ECONOMIC AND REAL ESTATE OUTLOOK

Despite the continued economic downturn and an encouraging decline in inflation, long-term interest rates stayed at new record levels and housing activity remained depressed during the first three months of the year. A recovery in both housing and the rest of the economy should begin in late Summer, but this will be less than normal in strength as exploding federal deficits and tight monetary policies keep interest rates high.

The Overall Economy

Economic activity continued to decline during the January to March quarter as investment in new plant and equipment and exports declined dramatically and housing and auto purchases remained depressed. This news was particularly disappointing considering the tax incentives designed to stimulate investment enacted last year and the hefty rebates being offered on domestic car purchases during the first quarter.

The culprit for this dismal performance is the current record interest rates. All interest sensitive sectors of the economy, including housing remain in the economic doldrums and high short-term rates have also made the dollar significantly overvalued on foreign exchange markets. As a result, American exports are being priced out of traditional markets and imports are growing rapidly.

The outlook is somewhat more encouraging later in the year. After declining at an annual rate of 4.4% during the first quarter of the year, overall output should drop a further 1.4% (annual rate) in the April to June quarter. However, the Summer recovery should see output rising again as the second round of tax cuts and hikes in social security payments boost consumer spending, and housing and exports make modest rebounds. Nevertheless, as long-term government bond rates remain around 13% and new mortgage rates hover in the 15-16% range, overall growth rates during the early stages of the next recovery should be restricted to around 3%--only about half the growth normally experienced in other post-war recoveries. The economy is expected to sustain this 3% growth rate through 1984 in what is definitely a subnormal performance after 3 years of virtual stagnation. This poor recovery should keep the unemployment rate up over 9.0% during this year's election--not a very comforting thought for those incumbents who have been unsuccessful in bringing down the federal deficit which is causing high interest rates and the recession.

Two and a half years of exceptionally tight monetary policy is finally showing an impact on inflation. The consumer price index rose at an annual rate of 3% in February, marking the fifth successive month of single-digit inflation and down 9 percentage points from the inflation rate one year ago. Most of the improvement reflects declines in world oil prices as a result of the recent oil glut and falling home prices. Mortgage rates, stuck at a whopping 17%, are at least no longer increasing as they were a year ago and this has also contributed to the observed slowdown in consumer inflation.

In addition to these special factors, there has been a significant decline in the underlying inflation rate. Wage costs are expected to increase about 8% this year, almost 2 percentage points below last year's 10%. As labor productivity improves during the modest recovery, this slowdown in labor costs should keep inflation down to about 8% in both 1983 and 1984.

Federal Economic Policy: Why have interest rates stayed so high?

Although the tight monetary policy of the past 30 months has undoubtedly contributed to the slowdown in inflation, this has been achieved at a high cost. Underlying inflation has been lowered by about 2 percentage points, but between 1980 and 1982, real economic growth will have been reduced about 3 percentage points a year. In other words, most of the impact of tight monetary policies when combined with exploding federal deficits has been in reduced real incomes, not reduced inflation.

The cost in lost output is staggering: this 3% per year slower real growth represents almost $550 billion in lost output between 1980 and 1982, or nearly $7,000 per household. Even more importantly, the improved inflation performance could have been achieved with only a small slowdown in real growth with smaller deficits and modest increases in money growth.

Monetary policy has been and will remain too tight to allow adequate room for investment and an expanding economy. For example, the Federal Reserve Board is targeting growth in basic money supply at a mere 2-1/2 to 5-1/2% this year. This is significantly less than the more than 8% basic credit growth needed to finance an economy growing at 3% while at the same time placing downward pressure on inflation. This almost exclusive reliance on tight credit growth and loose fiscal policy pushes interest rates up dramatically and crowds out investment in housing and business. To allow for faster real growth, the Federal Reserve Board should announce higher credit growth figures, increasing this year's upper target for increases in the basic money supply to 7-1/2%. In addition, the Fed needs to achieve a steadier growth in credit and to ensure that a few components of the money supply such as money market funds do not continue to grow excessively (currently around 85% per year) while restricting savings and time deposit growth to 4.7% per year.

However, the major culprit behind the current record long-term interest rates is the threat of exploding federal deficits over the next 3 years. Spurred on by excessive growth in federal spending, the deficit has been rising continuously from $40 billion in 1979 to an estimated $145 billion this year. While some effort has been made to restrain spending growth in FY1982, a much sharper slowdown was needed. Further slowdowns have been proposed by the President for FY1983, but again these are insufficient to stop the deficit exploding to an estimated $164 billion in FY1983 and $162 billion in FY1984.

Slowing spending growth is always politically difficult, but the problem has been compounded this year by the concentration of the proposed slowdowns in selected areas of the budget. Spending in the "big ticket" areas such as defense and social security entitlement programs have not so far been included in the budget cutter's

net. Yet without slowdowns in these areas, it is doubtful if overall spending growth can be reduced enough to adequately lower the deficit.

The size and structure of the tax changes are also adding to the high interest rate problem. The tax law changes enacted last year were too heavily directed at stimulating consumer spending and insufficiently targeted to encourage higher savings and investment. The tax cuts will also reduce revenue by $139 billion next year--over two and a half times larger than the spending slowdowns that have so far been achieved.

Interest rates are caught in the squeeze from all policy directions. The government's fiscal policies cause expanding deficits which take a record claim on the supply of savings. At the same time, the structure of the tax law changes doesn't do enough to increase savings flows.

With the prospect of a continuing drain on savings flows from the massive deficits, and with continued tight monetary policies, long-term interest rates will remain high despite the drop in inflation and declining real output.

Interest Rates

Continued uneasiness in financial markets over the outlook for the federal deficit has kept short term interest rates generally rising since last December. For example, the 3-month treasury bill rate fell to a low of under 11% in December (compared to 19% in July, 1981) as the economy contracted sharply in the first quarter of 1981, but the bill rose back up to 13.25% at the end of March.

After financial markets have had time to digest the current lower inflationary expectations and the magnitude of the first quarter decline in economic activity is known, short term interest rates may start downward again, with the 3-month bill rate falling to around 11.5% in early summer. This slide is likely to be short-lived however, as federal borrowing increases and economic activity picks up during the Fall. This could push the bill rate back up to 14% next Winter.

The risk of a major increase in short term interest rates by early 1983 is a major reason why mortgage interest rates and other long-term rates have yet to ease from last year's peak levels as dramatically as have short-term rates. Lending institutions are reluctant to commit to long-term assets at lower interest rates when these may have to be financed by higher cost borrowing at the end of the year. This stickiness in long term rates during recessions is fairly typical of the post war period. Nevertheless, there remains some room for declines in mortgage rates by summer as pressure eases temporarily on short term rates and mortgage rates move closer to other long-term yields such as those on corporate bonds. Still, mortgage rates on new commitments are unlikely to fall much below 15.5% before starting back up to over 16.5% early next year.

Mortgage Markets

Deposit flows improved at major mortgage lenders during February. Net new deposits at savings and loan associations reversed the $.1 billion outflow in the previous month to a record $.7 billion February inflow. Commercial banks, who have not suffered as much as thrifts with respect to deposit outflows, also showed a February deposit increase of $3.3 billion (or an increase in net new deposits of $.9 billion after subtracting out interest paid). Although mutual savings banks continued to suffer deposit outflow the $285 million outflow in February was a significant improvements, over January's outflow of $1.1 billion.

Despite this improved deposit flow, mortgage lending activity has remained depressed as interest rates remain high. Mortgages closed at savings and loan associations in February stood at $2.3 billion--virtually unchanged from January. However, there is some indication that new commitments improved in March and this may signal the start of a modest but gradual improvement in housing activity.

Mortgage loans outstanding at mutual savings banks declined $245 million in January, but this was more an indication of December's increased activity rather than a downward trend. At $99.8 billion, the value of mortgage loans outstanding is nearly unchanged from levels last Fall. Real estate lending by commercial banks in February at $678 million was less than half the January rate and the lowest level since October.

The Depository Institution Deregulatory Comittee authorized two new deposit instruments for depository institutions, but the impact of these new instruments on thrifts may not be all good. One will be a new 91-day certificate tied to the rate on 3-month treasury bills. It will also carry a minimum deposit of $7,500. The other will have a 3-1/2 year maturity and have no minimum amount and ceiling on its rate. The 91-day certificate, designed to have a market yield and be more liquid to compete with money market funds, will not successfully compete with the funds. Their minimum deposit is too high, their yield is not high enough and they are still not as liquid as money market funds. The new instrument will be competitive with passbook savings accounts. Currently at mutual savings banks, 72% of passbook accounts have balances of $5,000 or more and 52% have balances of $10,000 or more. The potential for a major shift from passbook accounts to these new certificates is great. This will only raise the average cost of funds for thrifts and accelerate their capital drain.

The performance for thrifts of the other instrument approved by the DIDC will depend heavily on the appetite for these funds of commercial banks. Thrifts, whose earning capability is inferior to commercial banks, would be at a disadvantage in head-to-head competition for these funds.

Housing Activity

The extremely high level of mortgage interest rates continues to plague the economy and prolong the depression in the housing industry. In February, existing

home sales reached a 1.9 million unit annual rate, an increase of only 2% from the weather-depressed January level. The 40-month decline in existing sales has meant $240 billion by a loss in home sales which 3.4 million households were hurt.

Housing construction also continues to suffer. Houses were started in February at a 953,000 unit rate--the seventh consecutive month below one million units. Never before in the post-war period have housing starts remained below a million for more than three months.

The outlook for home sales and construction still calls for a turnaround beginning this Spring and continuing in a very gradual growth path throughout 1983 and 1984. The sluggish start for 1982 will probably keep the industry from reaching last year's anemic activity.

The recovery is expected to return existing home sales to the three million unit evel during 1983 and to 3-1/2 million in 1984. Housing starts will recover slightly in 1982 and increase further during 1983 and 1984. Even so, only 6.5 million new homes will be started during the first 5 years of the 1980's compared to construction of over 10 million new units needed to house the increasing number of households.

Median home prices in February were $1,800 higher than January and 5.9% higher than a year earlier. Despite this slight acceleration in housing prices, the appreciation rate is low by historical standards and below the overall rate of inflation. It is expected that the next 6 months will continue this sluggish price performance, but by late 1982 and 1983 home prices will be accelerating more rapidly than inflation thanks to demographic pressures to obtain homes. This real increase in home prices should continue through 1984.

Commercial and Industrial Real Estate

The value of new commercial and industrial building increased again in February as new office buildings put in place rose to an annual rate of $22.1 billion, up from $21 billion in January. This higher office building activity more than offset slight declines in industrial construction ($17.1 billion put-in-place in February compared with $17.2 billion in January) and other commercial buildings ($15.4 billion put-in-place in February compared to $15.8 billion in January).

Unfortunately, this strength in office construction is likely to fall off by mid-year. F.W. Dodge reports that contracting for new office building declined to a 250 million square feet annual rate, compared with the over 300 million square feet average in 1981. Fairly substantial declines in industrial building construction are also expected in the first 6 months of this year as industrial production remains sluggish, interest rates high and excess capacity abounds in most nondefense industries.

Overall, new nonresidential construction is likely to fall 4.5% this year, although this decline seems more dramatic in part because of the exceptionally strong rate of construction of office buildings in 1981. The downturn should end in early 1983 with growth rates of 1-2% being achieved next year.

Table 1

U.S. ECONOMIC OUTLOOK

APRIL 1982

	QUARTERS							YEARS					
	Actual	Forecast						Actual			Forecast		
AGGREGATE ECONOMY	81:4	82:1	82:2	82:3	82:4	83:1	83:2	1979	1980	1981	1982	1983	1984
Gross National Product ($ billions)	2,998	3,004	3,039	3,117	3,213	3,298	3,368	2,414	2,626	2,926	3,093	3,416	3,771
Percent Change	4.6	0.7	4.8	10.6	12.9	11.0	8.8	12.0	8.8	11.4	5.7	10.4	10.4
Percent Change (without inflation)	-4.5	-4.4	-1.4	3.6	4.3	3.1	1.3	3.2	-0.2	2.0	-1.5	2.8	3.0
Consumption	-2.2	2.3	-0.9	3.8	3.5	4.2	0.7	2.9	0.5	2.5	0.9	2.9	2.6
Durables	-18.9	13.6	-6.0	21.9	13.4	3.0	-7.0	0.2	-7.4	2.6	0.7	5.5	3.8
Nondurables	-0.1	-1.4	0.1	1.5	1.3	2.5	1.9	2.6	1.1	2.5	0.3	1.7	1.8
Services	1.7	2.2	-0.1	0.8	2.3	6.0	2.2	4.1	2.6	2.6	1.5	3.1	2.9
Residential Investment	-27.5	-3.4	18.1	36.5	49.1	19.8	-2.5	-5.2	-18.6	-6.1	-4.7	18.3	6.9
Nonresidential Investment	-2.9	-13.8	-9.5	-2.3	4.9	4.3	2.1	6.5	-3.0	2.5	-5.3	2.6	6.0
Structures	9.2	-14.7	-12.3	-7.3	-4.3	-0.3	1.2	8.7	-0.1	5.4	-4.5	-2.2	2.3
Equipment	-7.9	-13.4	-8.1	0.1	9.4	6.5	2.5	5.5	-4.2	1.3	-5.6	4.9	7.7
Exports	-6.6	-6.4	0.1	1.2	4.1	5.2	6.4	15.2	9.6	-0.4	-3.1	4.4	5.0
Imports	4.5	2.3	1.2	4.3	7.8	7.3	4.5	6.0	-0.1	5.9	4.2	5.6	4.3
Government Purchases	10.2	-1.2	-6.6	-2.0	-1.3	-2.1	-0.5	1.5	2.9	0.6	-0.7	-1.5	0.5
Consumption (% of GNP)	63.9	65.0	65.1	65.1	65.0	65.1	65.0	62.8	63.2	63.5	65.0	65.1	64.9
Residential Investment (% of GNP)	2.6	2.6	2.8	3.0	3.2	3.4	3.3	4.0	3.2	3.0	2.9	3.3	3.5
Nonresidential Investment (% of GNP)	10.9	10.6	10.4	10.2	10.2	10.2	10.3	11.0	10.7	10.8	10.3	10.3	10.6
Inventory Change ($ billions)	9.4	-17.3	-7.1	2.1	8.6	7.2	12.8	17.5	-5.9	16.2	-3.4	10.5	18.5
Mfg. Capacity Utilization Rate (%)	75	72	71	72	74	75	75	86	79	78	72	75	76
Auto Sales (millions of units)	7.4	8.2	7.5	8.4	8.9	9.1	9.0	10.6	9.0	8.6	8.3	9.2	9.5
Manufacturing Industrial Production (% change)	-18.5	-13.9	0.1	9.8	11.5	7.7	2.3	4.6	-4.5	2.4	-5.3	6.7	4.4
Common Market	4 4	-0.6	0.1	3.1	4.1	3.2	2.3	4.7	0.2	-2.2	0.9	2.6	2.1
Japan	11.9	3.4	4.9	3.1	5.9	8.3	6.0	8.2	6.8	3.1	5.4	5.3	2.9
Employment (millions)	100.0	99.4	99.3	99.6	100.3	100.9	101.5	98.8	99.3	100.4	99.7	101.9	104.5
Unemployment Rate (%)	8.4	8.8	9.3	9.5	9.3	9.2	9.1	5.9	7.2	7.6	9.2	9.0	8.6
Disposable Income per Household (average)	26,885	27 183	27,592	28,512	29,147	29,780	30 278	21,565	23,748	26,042	28,109	30,834	33 610
Percent Change -- Year Ago (w/o inflation)	1.2	0.5	0.6	2.0	2.3	2.9	2.6	2.2	-0.1	1.2	1.3	2.6	2.1
Total Taxes per Household (average)	13,536	13,401	13 527	13,471	13 747	13,930	14 128	11 106	12 057	13,477	13,537	14,100	15,026
Percent Change -- Year Ago	6.7	0.4	1.1	-1.3	1.6	4.0	4.4	10.5	8.6	11.8	0.4	4.2	6.6
Percent of Disposable Income	50.3	49.3	49.0	47.2	47.2	46.8	46.7	51.5	50.8	51.8	48.2	45.8	44.7
Household Debt as Percent of Disposable Income	76.5	76.7	76.5	75.2	75.1	75.2	75.6	80.2	79.4	77.5	75.9	75.0	75.2
Consumer Price Inflation (CPI)	7.8	4.2	5.6	7.2	8.2	8.6	8.5	11.3	13.5	10.3	6.9	8.2	8.5
Gross National Product Inflation (GNP Deflator)	9.5	5.4	6.3	6.8	8.3	7.6	7.4	8.5	9.0	9.2	7.3	7.4	7.2
Personal Consumption Inflation	7.6	5.5	5.2	6.2	6.9	7.5	7.1	8.9	10.2	8.3	6.5	6.9	6.8
Residential Construction Inflation	6.4	8.3	7.7	8.9	10.1	9.9	9.9	12.8	9.4	6.9	7.7	9.6	8.6
Nonresidential Construction Inflation	10.2	8.9	7.7	9.4	10.6	10.6	10.6	12.6	13.4	9.5	9.4	10.1	8.9
Producers Price Inflation (WPI)	0.7	0.9	3.0	6 6	9.2	9.2	8.0	12 5	14.1	9.1	3.4	8.2	8.4
Compensation per Manhour (% change)	6.2	9.3	7.6	7.5	8.1	8.5	8.4	9.7	9.9	10.0	8.1	8.3	9.0
Productivity (% change)	-6.6	-3.0	-0.3	4.0	3.4	2.6	1.7	-0.7	-0.3	0.9	-1.6	2.4	1.4
Unit Labor Cost (% change)	13.8	12.7	7.9	3.3	4.5	5.7	6.6	10.4	10.3	9.0	9.8	5.8	7.5
Unit Capital Cost (% change)	8.8	8.4	8.1	7.8	7.6	7.5	7.5	11.3	11.3	9.8	8.0	7.6	8.4
Before Tax Corporate Profits ($ billions)<1>	241	203	194	209	224	236	241	255	258	262	208	246	274
Corporate Tax Liability	69	56	54	59	65	67	69	88	82	78	58	70	77
'Windfall Profits' Tax Receipts	26	24	21	22	24	22	21	0	13	29	23	22	23
Inventory Valuation Adjustment	-22	-5	-9	-14	-19	-24	-22	-43	-46	-28	-12	-25	-34
Capital Consumption Adjustment	-13	-10	-7	-3	0	1	1	-16	-17	-14	-5	1	2
After Tax Profits	145	123	119	128	136	147	151	168	163	156	127	154	174
Profits from Current Production (with IVA, CCA)	110	108	104	111	117	124	129	109	100	114	110	130	143
Adjusted for Inflation (81:4 base)	110	107	101	106	110	114	117	134	113	118	106	116	119
Percent Change - Year Ago	3.1	-13.1	-15.6	-12.1	-0.4	7.2	15.7	-1.6	-15.7	4.2	-10.5	10.1	2.5
Per Unit of Output (% of GNP)	3.7	3.6	3.4	3.5	3.6	3.8	3.8	4.5	3.8	3.9	3.5	3.8	3.8
Effective Corporate Tax Rate (%)<1>	39	36	35	36	37	36	36	45	45	41	36	36	36
Federal Tax Receipts (Unified basis)	586	534	725	588	568	571	777	481	533	622	604	650	711
Federal Expenditures (Unified basis)	779	711	723	706	770	784	796	509	601	695	727	797	852
Surplus or Deficit (Unified basis)	-203	-177	2	-118	-201	-213	-19	-28	-68	-75	-123	-146	-141
% of GNP	-6.8	-5.9	0.1	-3.8	-6.3	-6.5	-0.6	-1.2	-2.6	-2.5	-4.0	-4.3	-3.8
% of Personal Savings	-39.6	-37.3	0.4	-18.5	-31.1	-34.2	-3.0	-9.2	-18.1	-17.1	-21.6	-20.9	-17.3
% of Total Private Savings	-10.0	-8.7	0.1	-5.3	-8.7	-9.0	-0.8	-1.8	-4.0	-3.9	-5.6	-5.8	-5.0

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

Table 2

REAL ESTATE AND FINANCIAL MARKETS — APRIL 1982

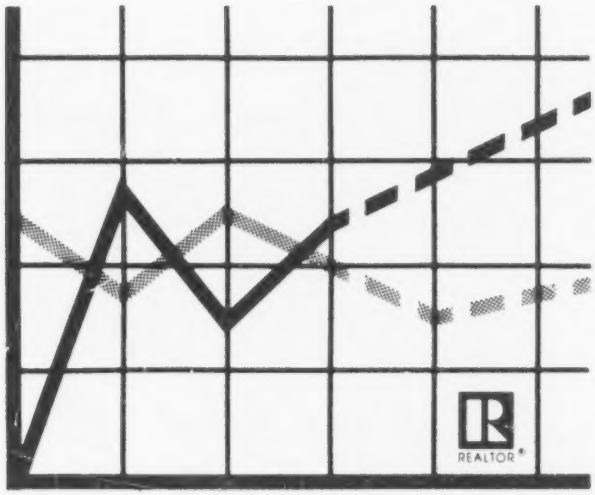
	QUARTERS							YEARS					
	Actual	Forecast						Actual			Forecast		
	81:4	82:1	82:2	82:3	82:4	83:1	83:2	1979	1980	1981	1982	1983	1984
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	1.923	1,960	2,166	2,490	2,742	2,888	2,972	3,701	2.881	2,352	2,339	3,067	3.561
Percent Change - Year Ago	-34.6	-24.6	-17.6	10.5	42.6	47.4	37.2	-4.2	-22.2	-18.4	-0.5	31.1	16.1
Dollar Volume (billions)	149.2	153.3	174.8	207.8	225.9	242.6	257.3	237.6	209.7	183.3	190.5	268.1	340.0
Existing Home Prices - Median ($1000's)	66.2	67.2	69.7	72.4	71.7	73.3	75.7	55.7	62.2	66.4	70.2	76.3	83.7
Percent Change - Year Ago	4.5	4.4	4.9	7.1	8.4	9.1	8.5	14.1	11.7	6.6	6.2	8 7	9.6
Monthly Mortgage Payments (P&I, 80%, 30 yr.)	795	779	754	770	785	816	810	433	588	742	772	822	901
Percent of Household Income	30	29	28	28	28	28	27	20	25	29	28	27	28
New Single-Family Home Sales (thousands)	402	386	465	522	510	510	562	704	545	437	471	591	617
Percent Change - Year Ago	-27.3	-26.1	2.1	41.3	26.8	32.1	20.9	-13.7	-22.5	-19.8	7.6	25.6	4.4
New Home Prices - Median ($1000's)	69.6	70.3	71.7	73.5	75.6	77.6	79.7	62.7	64.7	68.9	72.8	80.8	88.8
Percent Change - Year Ago	5.2	4.8	3.9	5.4	8.6	10.4	11.2	12.5	3.1	6.4	5.7	11.0	10.0
New Home Prices--Mean ($1000's, Quality Adjusted)	86.7	90.2	92.6	93.4	94.5	98.4	101.0	71.4	78.5	85.3	92.7	101.2	110.2
Percent Change - Year Ago	8.0	8.3	8.6	8.7	9.0	9.1	9.1	14.8	10.1	8.6	8.6	9.2	8.9
New Mortgage Commitments ($ billions)	45.3	52.2	64.8	81.2	99.9	83.8	65.6	129.0	87.1	60.2	74.5	60.2	88.9
Percent Change - Year Ago	-52.6	-33.2	-6.6	69.5	120.7	60.4	1.2	-8.8	-32.5	-30.9	23.8	-19.2	47.5
Mortgage Debt Outstanding ($ billions)	1,555	1,588	1,620	1,657	1,696	1,730	1,763	1,266	1,401	1,512	1,640	1,780	1,944
Homeowners' Equity ($ billions)	2,284	2,317	2,343	2,383	2,454	2,545	2 644	1,911	2,047	2,208	2,375	2.698	3,113
Housing Inventory (millions)	84.7	84.8	84.8	85.0	85.1	85.3	85.5	82.8	83.8	84.5	84.9	85.6	86.4
Private Housing Starts (thousands)	865	922	1,016	1,200	1,403	1,343	1,357	1,717	1,298	1,100	1,135	1,357	1,500
Single-Family	537	622	668	822	987	914	932	1,172	855	714	775	928	1,058
Multi-Family	328	301	347	378	417	428	424	546	443	386	361	430	442
Subsidized	157	147	143	136	113	75	57	175	173	115	135	52	10
Mobile Home Shipments (thousands)	207	202	196	211	234	247	240	276	223	240	211	238	240
Rental Vacancy Rate (%)	5.0	5.0	4.9	4.8	4.8	4.7	4.7	5.4	5.4	5.0	4.9	4.7	4.5
Unsold New Homes (% of sales)	76.6	76.3	76.9	71.6	67.3	64.5	67.2	59.6	68.4	75.6	73.0	66.6	71.3
Office Vacancy Rate (%)<1>	4.8	5.0	5.0	4.9	4.9	4.8	4.7	4.4	3.7	4.3	5.0	4.6	4.2
Industrial Vacancy Rate (%)<1>	3.8	4.0	4.1	4.2	4.4	4.3	4.3	3.0	3.5	3.7	4.2	4.3	3.9
New Commercial Building Construction (% Ch Value)	9.8	-10.9	2.2	1.0	4.1	10.5	17.2	33.8	21.7	11.7	0.8	9.4	13.7
New Industrial Building Construction (% Ch Value)	6.4	-29.8	-30.9	2.7	19.4	14.3	17.9	37.2	-6.7	20.8	-6.0	12.4	24.5
FINANCIAL MARKETS													
Personal Savings Rate (%)	6.1	5.6	6.2	7.2	7.1	6.7	6.7	5.3	5.6	5.3	6.5	7.1	7.6
Money Supply (M1b) (% change)	5.9	11.4	2.1	6.1	2.4	4.4	2.1	7.8	6.2	6.7	5.8	3.7	4.0
Money Supply (M2) (% change)	9.2	10.5	5.0	7.9	9.5	8.1	7.4	8.9	8.7	9.1	8.7	8.0	8.6
Total Time and Savings Deposits (% change)	6.2	6.0	7.0	8.8	8.4	7.4	6.4	8.6	7.5	8.7	6.7	7.5	7.9
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	17.95	17.29	16.10	15.80	16.29	16.59	15.91	11.27	14.00	16.71	16.37	16.03	16.01
Real Mortgage Rate	8.44	11.94	9.82	9.05	8.03	9.00	8.52	3.21	4.24	7.84	9.71	8.53	9.00
Assumption Rate	13.54	11.97	11.59	11.78	11.92	12.11	12.06	NA	10.95	12.85	11.82	11.91	11.16
Seller Take Back Mortgage Rate	13.20	12.60	12.20	12.40	12.55	12.75	12.70	NA	11.25	13.15	12.44	12.54	11.75
Blended Rate	15.00	14.63	13.92	13.80	14.16	14.40	14.01	10.36	12.23	14.15	14.13	14.11	14.30
Corporate Bond Rate (AAA)	14.62	15.00	14.63	14.26	14.35	14.37	14.28	9.63	11.94	14.17	14.56	14.19	14.08
Government Bond Rate	14.11	14.19	12.62	12.34	12.84	13.64	13.73	9.62	11.51	14.34	13.00	13.34	12.89
Real Long-term Government Bond Rate	4.61	8.83	6.35	5.59	4.58	6.04	6.34	1.56	1.75	5.47	6.34	5.85	5.88
Federal Funds Rate	13.59	13.91	12.59	12.20	13.77	14.96	16.50	11.19	13.36	16.38	13.12	15.67	14.51
3 Month Treasury Bills	11.75	12.87	11.74	11.38	12.53	13.43	14.41	10.07	11.43	14.03	12.13	13.99	13.10
1 Year Treasury Bills	13.55	14.08	12.53	12.32	13.11	13.85	14.61	10.67	12.05	14.78	13.01	14.13	13.16
Commercial Paper Rate	13.04	13.72	12.44	12.18	13.63	14.82	16.06	10.97	12.66	15.33	12.99	15.54	14.41
Rate on Money Market Fund Shares	13.31	13.95	12.65	12.38	13.86	15.08	16.34	11.12	12.89	15.68	13.21	15.83	14.67
Prime Rate	17.01	16.57	14.96	14.57	15.95	16.69	16.97	12.67	15.27	18.87	15.51	16.97	15.61

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

A7000-1 7/28/82

OUTLOOK FOR THE ECONOMY AND REAL ESTATE



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May 1982

THE U.S. ECONOMIC AND REAL ESTATE OUTLOOK

Despite continued progress in the fight against inflation, the economy remains in the grip of recession as the prospect of exploding federal deficits keeps interest rates high. Nevertheless, some slight declines in both short and long-term rates are likely by early Fall this year. This should encourage a modest improvement in housing activity and permit an anemic and shortlived recovery of the overall economy in the second half of the year.

General Economy

According to initial estimates, the nation's output of all goods and services declined at a 3.9% annual rate during the first 3 months of the year. Most of this decline was the result of the rundown in inventories as businesses adjusted production levels to match the recession-induced slowdown in sales. Such declines in business inventories normally precede the next recovery by about 6 months.

In addition to a drop in the inventories, declines in investment in housing, new plant and equipment expenditures and exports also contributed to the fall in national output in the first quarter.

The latest decline in national output leaves GNP down 2.1% from the peak achieved in the third quarter last year--about average for post-war recessions.

While GNP is expected to fall again in the second quarter of the year, the decline is expected to be more modest than during the past 6 months--around 2.4% at an annual rate. The next recovery should begin late this year as the next scheduled round of personal tax cuts and increases in government entitlement program expenditures boost consumer spending. Unfortunately, the upturn is likely to be below normal strength as growing demand for credit collides with an exploding federal deficit and interest rates are forced up again.

Although the recovery is expected to continue at a restrained pace through next year, overall growth in 1983 is forecast to reach only 2.8%. Following the stagnant growth experienced since 1980, this represents a very poor economic performance. Overall growth may improve slightly in 1984 to around 3.6% as nonresidential investment activity picks up. Even so, this will mean that the average growth rate for the first 5 years of the 1980's will reach just 1.3%--nearly 2% below normal.

The encouraging economic news is that consumer price inflation has dropped dramaticaly as the economy fell into the depths of the current recession. The consumer price index rose at an annual rate of just 3.2% during the first 3 months of the year--well below the double-digit rates of the past 3 years. Much of the improvement has been due to falling world oil prices, slow growth in food costs and to slight declines in new home prices and mortgage interest rates. Nevertheless, there are also more fundamental factors at work. A significant slowdown in wage claims, particularly in manufacturing industries hard hit by

the recession such as automobiles and steel, has lowered the labor cost rises to around 8.5%, a significant drop from the near double-digit rates which prevailed over the last 3 years. This moderation in labor cost increases should continue over the next 2 years, especially when worker productivity starts to improve again in 1983 and 1984. While it is unlikely that inflation will stay around current levels for the rest of the year, the good start to this year should keep inflation for 1982 as a whole at around 6% with a slight increase to 7.4% next year and 8.3% in 1984.

Federal Economic Policy

Normally, a slowdown in inflation and inflationary expectations is quickly reflected in lower long-run interest rates. This process should also be reinforced by the reduced demands for borrowing which accompany economic recessions such as the current downturn.

While short-term interest rates have generally fallen from last year's record levels, however, long-term rates--including those on mortgages--have yet to incorporate the improved inflationary outlook.

Primarily long-term interest rates have remained high because money markets expect the paralysis of leadership in the federal government to continue, leading to an explosion in federal deficits over the next few years.

Even some members of the Administration now concede that without prompt action by Congress to trim spending and enhance revenues, the FY1983 budget deficit will hit $182 billion; the deficit could reach $216 billion in FY1984 and $233 billion in FY1985. Exploding federal deficits of this size absorb a huge share of the available supply of private savings, crowding out investment in housing and new, productivity-increasing plant and equipment and push up interest rates.

Moreover, the magnitude of the problem requires strong corrections resources. To restore confidence to financial markets and lower long-term interest rates, the FY1983 deficit needs to be held to below $100 billion--more than $80 billion below current estimates. Even larger reductions in later years with the FY1984 deficit kept below $75 billion (down from $216 billion under current estimates); $50 billion in FY1985 and decline to a balance by FY1986.

Achieving deficit reductions of this size will require slowing the growth of defense spending, reducing the growth of benefit programs (including limiting the size of cost-of-living adjustments), cutting other federal spending, delaying next year's scheduled personal tax rate reductions and increasing taxes on consumption.

While these are difficult and substantial measures to adopt, the potential benefits are considerable and must be achieved: Our preliminary analysis shows that deficits limited to $100 billion in 1983, $75 billion in 1984, $50 billion in 1985, and balance in 1986 could cause short-term interest rates to drop

within 90 days by as much as 4 percentage points. Mortgage rates could drop by 3 percentage points within 6 months which would triple American households eligible for homeownership, and would likely result in nearly one million additional households owning the homes they need each year. In turn, would mean $4 billion total or $7,000 more income for each member each year and increase employment, income and output of all Americans.

Interest Rates and Mortgage Markets

New mortgage interest rates at banks have declined slightly over the last 2 months from 17.5% at the end of February to 16.9% at the end of April. These mortgage interest rates are forecast to continue this slow decline through June as the soft economy and lower inflationary expectations continue to allow short-term interest rates to drift downward. It is expected that new mortgage commitment rates will bottom in late Summer at around 15.5%.

Rising demand for funds as the economy resumes growth should start interest rates rising again late this year. With the prospects of massive federal deficits--over $160 billion a year--over the next 2 years placing unprecedented drains on the supply of savings interest rates are expected to rise back up to near record levels next year. It is forecast that mortgage rates will peak at over 16.5% during the first half of next year and average over 16% in both 1983 and 1984, unless economic policies are changed.

The modest improvement in mortgage rates since February has yet to be reflected in increased mortage lending by insured savings and loans. Mortgage lending was up only seasonally from February to March even though interest rates were declining and deposits and liquidity increased. Deposit balances rose $5.2 billion at S&L's in March. Even though this was due to end of quarter interest credited as new net deposits declined, savings association liquidity was up as liquid asset holdings of associations rose by $1.4 billion after a $2.6 billion increase in February. The aggregate S&L liquidity ratio stood at 9.16%, which was higher than at any time since February 1981 when it stood at 9.19%.

Mutual savings banks continued to suffer deposit declines, however, as total deposits declined $775 million for March--reversing a $540 million increase in February. The National Association of Mutual Savings Banks reported a $971 decline in mortgage loans outstanding.

Commercial banks also had a deposit decline during March as the Federal Reserve reported that larger commercial banks recorded a drop in total deposits of nearly $10 billion. Real estate lending by commercial banks, however, was up more than $500 million over the same period.

With interest rates falling and deposits increasing with tax returns over the next 2 months, it is expected that mortgage lending activity will increase during May and June. However, commitment activity will still be less for the second quarter of 1982 than it was for the second quarter of 1981. New mortgage commitments will reach an annual rate of nearly $65 billion for the second

quarter and will increase to an annual rate of $76 billion for the third quarter. The commitment rate for 1982 will be near $73 billion.

Residential Real Estate

Since January, the rate of existing home sales and housing starts have both improved, but both remain extraordinarily weak. Existing home sales had their worst first quarter since 1970, with only 420,000 transactions. Similarly, only 178,000 housing units were started in the first quarter, the poorest beginning quarter to a year in the post-war period.

Only active participation in providing financing on the part of sellers of existing homes and builders of new homes has allowed even this level of activity in the face of mortgage interest rates which stubbornly refuse to fall below 17.5%. That participation usually means that purchasers end up with a mortgage interest rate between 12 and 13%, at least in the early years of the mortgage.

The outlook requires continued seller participation, since mortgage interest rates are forecast to decline only a little between now and 1984. Adjustment to these higher interest rates, coupled with intense demographic pressure for housing, will provide a gradual but sustained recovery in housing sales. Some readjustment in consumer expectations will still be required since the proportion of household income devoted to housing is moving closer to the worldwide average of 40% from the bargain levels to which Americans are accustomed.

Existing home sales are expected to move back above a 2 million unit annual rate in the Spring and to push the 3 million barrier by early 1983. Slightly more than 3 million existing homes should be sold in 1983 and approximately 3.6-3.7 million could change hands in 1984. In the new home construction market, the start rate should move back above one million in April or May and to reach almost 1.4 million by year-end. Starts are expected to remain in the 1.3 to 1.5 million unit range through 1984.

Homes are a bargain at the present time. For 2 years, prices on average have increased less rapidly than the rate of inflation. If the current inflation levels can be maintained, however, the bargain status will quickly disappear. In March, the median existing home price was $67,200, only 4.4% higher than a year ago. Sluggish price performance can be expected for the next 6 months, while excess inventories of existing homes are worked down, but by year-end or in 1983, the rate of increase in home prices will be about the same as the inflation rate. By 1984, home price increases should reach around 9.5%--slightly above the inflation rate expected in that year.

Commercial and Industrial Investment

With the gloss finally coming off the booming office construction market, overall nonresidential investment should start to decline this year, despite the

tax incentives enacted in 1981. Last year, declines in industrial construction (down 14%) and retail building (down 9%) were offset by a substantial upturn in office construction. The F W. Dodge Company reported a 30% increase in new construction contracts for office buildings in 1981 with over 300 million square feet contracted. New contracts for office building have already fallen substantially from these unsustainable levels as the overall economy weakened and the previous shortage of office space has been reduced by new construction during the past 2 years.

The predicted downturn in new office building in the second half of 1982 will reinforce further declines in retail and industrial building this year. The capacity utilization rate in industry is expected to remain below 80% (compared with a normal 93%), new industrial construction activity is expected to fall about 8% this year, but to rebound in 1983 with a 6% increase. Retail store construction is expected to fall 6% this year but rise 5% in 1983.

Table 1

U.S. ECONOMIC OUTLOOK

MAY 1982

	QUARTERS							YEARS					
	Actual		Forecast					Actual			Forecast		
	81:4	82:1	82:2	82:3	82:4	83:1	83:2	1979	1980	1981	1982	1983	1984
AGGREGATE ECONOMY													
Gross National Product ($ billions)	2,998	2,995	3,014	3,085	3,179	3,255	3,320	2,414	2,626	2,926	3,068	3,371	3,736
Percent Change	4.6	-0.4	2.5	9.9	12.7	9.9	8.2	12.0	8.8	11.4	4.9	9.8	10.8
Percent Change (without inflation)	-4.5	-3.9	-2.4	3.7	4.8	2.5	1.3	3.2	-0.2	2.0	-1.5	2.8	3.6
Consumption	-2.2	4.0	-1.6	4.2	3.9	3.0	1.2	2.9	0.5	2.5	1.3	2.7	3.1
Durables	-18.9	14.6	-10.8	20.1	13.8	7.8	-2.7	0.2	-7.4	2.6	-0.2	6.7	5.5
Nondurables	-0.1	1.0	-1.3	1.1	1.9	2.2	2.3	2.6	1.1	2.5	0.7	1.6	2.0
Services	1.7	3.4	0.9	2.4	2.5	2.2	1.6	4.1	2.6	2.6	2.2	2.3	3.2
Residential Investment	-27.5	-10.7	24.9	39.2	43.6	18.4	-2.9	-5.2	-18.6	-6.1	-5.5	17.9	10.4
Nonresidential Investment	-2.9	-0.7	-24.4	-8.2	-0.9	4.3	5.3	6.5	-3.0	2.5	-6.1	0.9	7.6
Structures	9.2	-5.3	-21.3	-7.7	-4.8	-0.5	0.9	8.7	-0.1	5.4	-4.0	-3.1	2.7
Equipment	-8.0	1.5	-25.7	-8.5	1.0	6.7	7.4	5.5	-4.2	1.3	-7.1	2.8	9.8
Exports	-6.6	-9.1	-3.2	2.3	3.6	4.9	5.0	15.2	9.6	-0.4	-4.3	4.0	5.5
Imports	4.5	-7.9	-3.8	3.4	4.8	5.8	4.1	6.0	-0.1	5.9	0.2	4.4	5.5
Government Purchases	10.2	0.5	-7.1	-1.8	-0.1	-4.1	-0.2	1.5	2.9	0.6	-0.2	-1.7	0.4
Consumption (% of GNP)	63.9	65.2	65.3	65.4	65.2	65.3	65.3	62.8	63.2	63.5	65.3	65.2	64.9
Residential Investment (% of GNP)	2.6	2.6	2.7	3.0	3.2	3.3	3.3	4.0	3.2	3.0	2.9	3.3	3.5
Nonresidential Investment (% of GNP)	10.9	10.9	10.3	10.0	9.8	9.9	10.0	11.0	10.7	10.8	10.2	10.1	10.4
Inventory Change ($ billions)	9.4	-40.0	-18.4	-8.0	2.5	5.3	5.0	17.5	-5.9	16.2	-16.0	8.3	20.8
Mfg. Capacity Utilization Rate (%)	75	71	71	72	73	74	74	86	79	78	72	75	77
Auto Sales (millions of units)	7.4	8.2	7.4	8.4	8.9	9.1	8.7	10.6	9.0	8.6	8.3	9.1	9.8
Manufacturing Industrial Production (% change)	-18.3	-14.3	-1.8	7.5	11.4	6.2	3.3	4.6	-4.5	2.4	-6.0	6.5	6.0
Common Market	4.4	-0.7	0.0	3.0	4.2	3.3	2.4	4.7	0.2	-1.9	0.8	2.7	2.9
Japan	11.2	-0.2	3.4	3.4	5.4	6.1	2.4	8.2	6.8	3.0	4.0	4.3	4.9
Employment (millions)	100.0	99.6	99.3	99.7	100.3	101.0	101.7	98.8	99.3	100.4	99.7	102.1	104.7
Unemployment Rate (%)	8.4	8.8	9.3	9.4	9.3	9.1	9.0	5.9	7.2	7.6	9.2	8.9	8.4
Disposable Income per Household (average)	26,885	27,166	27,434	28,257	28,881	29,305	29,763	21,565	23,748	26,042	27,935	30,320	33,185
Percent Change -- Year Ago (w/o inflation)	1.2	0.5	0.5	1.7	2.2	2.1	1.9	2.2	-0.1	1.2	1.2	2.0	2.6
Total Taxes per Household (average)	13,528	13,361	13,411	13,331	13,616	13,969	14,157	11,106	12,057	13,475	13,430	14,153	15,204
Percent Change -- Year Ago	6.6	0.2	0.2	-2.3	0.7	4.5	5.6	10.5	8.6	11.8	-0.3	5.4	7.4
Percent of Disposable Income	50.3	49.2	48.9	47.2	47.1	47.7	47.6	51.5	50.8	51.8	48.1	46.7	45.8
Household Debt as Percent of Disposable Income	76.5	76.4	76.2	74.7	74.1	74.3	74.5	80.2	79.4	77.5	75.4	73.7	72.5
Consumer Price Inflation (CPI)	7.8	3.2	2.9	5.5	6.7	7.8	8.8	11.3	13.5	10.3	5.8	7.4	8.3
Gross National Product Inflation (GNP Deflator)	9.5	3.6	5.0	5.9	7.6	7.2	6.8	8.5	9.0	9.2	6.4	6.9	7.0
Personal Consumption Inflation	7.6	5.1	3.5	5.7	6.3	7.3	6.6	8.9	10.2	8.3	6.0	6.4	6.7
Residential Construction Inflation	6.4	5.5	5.2	6.8	8.3	8.0	7.9	12.8	9.4	6.9	6.2	7.8	8.5
Nonresidential Construction Inflation	10.2	4.9	5.5	7.2	8.8	8.9	8.8	12.6	13.4	9.5	7.5	8.5	9.2
Producers Price Inflation (WPI)	0.7	0.4	-0.9	5.0	7.0	7.1	7.7	12.5	14.1	9.1	2.2	6.7	8.6
Compensation per Manhour (% change)	6.2	8.9	7.0	7.0	8.0	8.0	7.9	9.7	9.9	10.0	7.9	7.9	8.8
Productivity (% change)	-6.6	-0.6	0.3	5.5	2.5	1.9	1.7	-0.7	-0.3	0.9	-0.7	2.2	1.9
Unit Labor Cost (% change)	13.8	9.6	6.7	1.5	5.4	6.0	6.1	10.4	10.3	9.0	8.6	5.6	6.8
Unit Capital Cost (% change)	8.8	8.3	8.0	7.6	7.2	6.9	6.8	11.3	11.3	9.8	7.8	6.9	7.6
Before Tax Corporate Profits ($ billions)<1>	239	201	181	193	207	213	215	255	258	262	195	223	264
Corporate Tax Liability	69	56	50	55	60	60	60	88	82	78	55	63	75
'Windfall Profits' Tax Receipts	26	24	22	23	24	23	22	0	13	29	23	22	24
Inventory Valuation Adjustment	-22	-11	-5	-10	-15	-18	-20	-43	-46	-28	-10	-22	-28
Capital Consumption Adjustment	-13	-10	-6	-2	2	3	4	-16	-17	-14	-4	4	4
After Tax Profits	144	120	109	115	123	131	133	168	163	156	117	138	165
Profits from Current Production (with IVA, CCA)	109	100	99	103	109	116	117	109	100	114	103	120	141
Adjusted for Inflation (82:4 base)	109	99	97	99	103	108	107	134	113	118	100	109	120
Percent Change - Year Ago	2.0	-19.2	-19.1	-17.5	-5.1	9.0	10.9	-1.6	-15.7	3.9	-15.5	9.4	9.9
Per Unit of Output (% of GNP)	3.6	3.3	3.3	3.3	3.4	3.6	3.5	4.5	3.8	3.9	3.3	3.6	3.8
Effective Corporate Tax Rate (%)<1>	40	37	35	36	37	35	35	45	45	41	36	36	36
Federal Tax Receipts (unified basis)	589	553	714	571	550	567	771	481	533	623	597	646	712
Federal Expenditures (unified basis)	782	669	721	709	769	778	798	509	596	695	717	793	855
Surplus or Deficit (incl. off budget)	-214	-136	-27	-159	-239	-227	-44	-41	-77	-94	-140	-163	-158
% of GNP	7.1	4.5	0.9	5.1	7.5	7.0	1.3	3.5	3.5	4.3	4.5	4.8	4.2
% of Personal Savings	167.1	121.3	21.5	106.9	158.4	167.1	32.3	98.2	95.7	116.8	102.0	105.6	86.1
% of Total Private Savings	42.1	27.8	5.4	29.3	42.9	40.8	7.7	21.1	21.7	26.2	26.3	27.4	23.2

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

Table 2

REAL ESTATE AND FINANCIAL MARKETS — MAY 1982

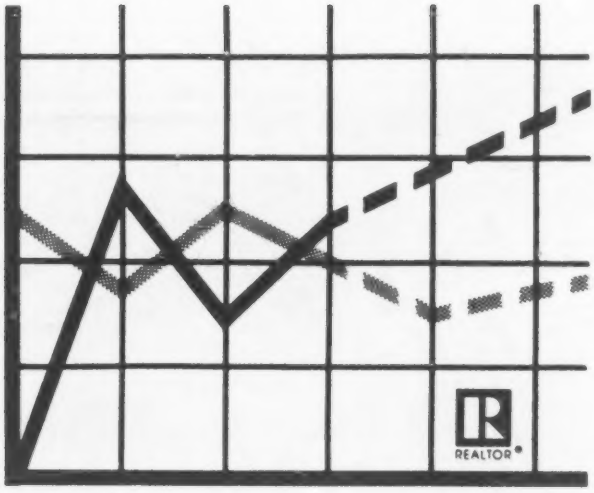
	QUARTERS							YEARS					
	Actual		Forecast					Actual			Forecast		
	81:4	82:1	82:2	82:3	82:4	83:1	83:2	1979	1980	1981	1982	1983	1984
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	1,923	1,933	2,130	2,457	2,776	2,945	3,069	3,701	2,881	2,351	2,324	3,144	3,664
Percent Change - Year Ago	-34.6	-25.6	-19.0	3.0	44.3	52.3	44.0	-4.2	-22.2	-18.4	-1.2	35.3	16.5
Dollar Volume (billions)	149.2	153.3	172.7	204.4	226.6	243.8	260.4	237.6	209.7	184.1	189.3	269.0	340.9
Existing Home Prices - Median ($1000's)	66.2	66.8	69.0	71.3	70.4	71.7	73.8	55.7	62.2	66.4	69.4	74.4	81.4
Percent Change - Year Ago	4.5	3.9	3.8	5.6	6.4	7.3	6.9	14.1	11.7	6.6	4.9	7.2	9.5
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	795	782	745	747	745	770	788	433	588	742	755	797	883
Percent of Household Income	30	29	27	27	26	27	27	20	25	29	27	27	27
New Single-Family Home Sales (thousands)	402	365	403	457	472	462	480	704	545	437	424	500	518
Percent Change - Year Ago	-27.4	-30.2	-11.5	23.7	17.5	26.5	19.0	-13.7	-22.5	-19.8	-3.0	18.0	3.4
New Home Prices - Median ($1000's)	69.4	66.8	67.9	69.1	70.4	71.6	72.6	62.7	64.7	68.8	68.6	73.2	78.1
Percent Change - Year Ago	4.9	-0.1	-1.6	-0.9	1.4	6.7	6.9	12.5	3.1	6.4	-0.3	6.7	6.8
New Home Prices--Mean ($1000's, Quality Adjusted)	87.3	90.0	92.2	93.0	93.9	97.7	100.0	71.4	78.5	85.5	92.3	100.1	108.7
Percent Change - Year Ago	8.7	8.0	8.1	8.3	7.6	8.6	8.5	14.8	10.1	8.8	8.0	8.5	8.5
New Mortgage Commitments ($ billions)	45.3	52.9	57.2	73.9	89.3	70.9	52.6	129.0	87.1	60.2	68.4	56.2	93.9
Percent Change - Year Ago	-52.6	-32.3	-17.5	54.2	97.3	34.0	-8.1	-8.8	-32.5	-30.9	13.6	-17.9	67.2
Mortgage Debt Outstanding ($ billions)	1,544	1,582	1,617	1,654	1,690	1 724	1,755	1,266	1,400	1,508	1,636	1,771	1,922
Homeowners' Equity ($ billions)	2,296	2,290	2,272	2,260	2,268	2,314	2,361	2,010	2 115	2,239	2,273	2,384	2,581
Housing Inventory (millions)	84.7	84.8	84.9	85.0	85.1	85.3	85.5	82.8	83.8	84.5	84.9	85.6	86.4
Private Housing Starts (thousands)	865	919	993	1,168	1,365	1,298	1,303	1,745	1,292	1,085	1,111	1,325	1,538
Single-Family	537	586	650	799	962	890	899	1,194	852	706	749	906	1,092
Multi-Family	328	333	343	369	403	409	403	551	440	379	362	419	446
Subsidized	157	147	143	136	113	75	57	175	173	115	135	52	10
Mobile Home Shipments (thousands)	207	237	245	251	265	270	268	276	223	240	249	267	262
Rental Vacancy Rate (%)	5.0	5.0	5.0	5.0	5.0	5.0	5.1	5.4	5.4	5.0	5.0	5.0	5.1
Unsold New Homes (% of sales)	76.7	76.1	78.6	74.2	69.1	65.8	67.1	59.6	68.4	75.6	74.5	66.5	68.8
Office Vacancy Rate (%)<1>	4.8	5.4	5.5	5.6	5.4	5.2	5.0	4.4	3.7	4.3	5.5	5.0	4.6
Industrial Vacancy Rate (%)<1>	3.8	3.8	4.0	4.2	4.2	4.4	4.5	3.0	3.5	3.7	4.1	4.4	4.1
New Commercial Building Construction (% Ch Value)	9.8	30.6	-27.8	-7.5	2.2	7.5	14.3	33.8	21.7	11.7	2.7	4.1	14.0
New Industrial Building Construction (% Ch Value)	6.2	-24.1	-35.9	-9.7	-7.3	9.7	12.7	37.2	-6.7	20.7	-8.3	2.4	20.8
FINANCIAL MARKETS													
Personal Savings Rate (%)	6.1	5.3	6.0	6.7	6.7	5.9	5.8	5.3	5.6	5.3	6.2	6.4	6.9
Money Supply (M1b) (% change)	5.9	10.6	3.1	3.2	5.4	4.5	1.5	7.7	6.3	7.0	5.6	4.0	4.7
Money Supply (M2) (% change)	9.2	.0.0	9.1	7.6	8.1	7.2	6.9	8.5	8.3	9.8	9.2	7.8	9.0
Total Time and Savings Deposits (% change)	6.2	7.5	8.6	10.6	8.4	6.7	5.5	8.6	7.5	8.7	7.6	7.3	7.2
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	17.95	17.45	16.07	15.56	15.72	15.97	15.89	11.27	14.00	16.71	16.20	15.93	16.15
Real Mortgage Rate	8.44	13.85	11.05	9.65	8.09	8.75	9.09	3.21	4.24	7.84	10.66	8.79	9.27
Assumption Rate	13.54	11.97	11.59	11.78	11.92	12.11	12.06	NA	10.95	12.85	11.82	11.91	11.16
Seller Take Back Mortgage Rate	12.80	12.50	12.10	12.30	12.50	12.70	12.70	NA	11.25	13.15	12.35	12.54	11.75
Blended Rate	15.00	14.73	13.91	13.64	13.80	14.01	14.00	10.36	12.23	14.15	14.02	14.05	14.38
Corporate Bond Rate (AAA)	14.62	15.01	14.00	13.12	12.98	13.00	13.06	9.63	11.94	14.17	13.78	12.98	13.07
Government Bond Rate	14.11	14.45	12.86	12.18	12.61	13.13	13.48	9.62	11.51	14.34	13.02	13.13	12.69
Real Long-term Government Bond Rate	4.61	10.84	7.84	6.27	4.98	5.91	6.69	1.56	1.75	5.47	7.48	5.99	5.81
Federal Funds Rate	13.59	13.93	13.28	12.78	13.66	14.89	16.21	11.19	13.36	16.38	13.41	15.41	13.94
3 Month Treasury Bills	11.75	12.81	12.15	11.96	12.45	13.20	13.98	10.07	11.43	14.03	12.34	13.61	12.62
1 Year Treasury Bills	13.55	14.33	13.28	12.44	12.92	13.66	14.32	10.67	12.05	14.78	13.24	13.88	12.85
Commercial Paper Rate	13.04	13.81	13.77	13.18	13.80	14.62	15.56	10.97	12.66	15.33	13.64	15.10	13.58
Rate on Money Market Fund Shares	13.31	14.06	14.02	13.39	14.02	14.86	15.84	11.12	12.89	15.68	13.87	15.38	13.84
Prime Rate	17.01	16.27	15.92	15.02	15.48	16.55	16.65	12.67	15.27	18.87	15.67	16.67	15.15

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin and Glenn Crellin.

A7000-1 8/10/82

OUTLOOK FOR THE ECONOMY AND REAL ESTATE



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U.S. ECONOMIC AND REAL ESTATE OUTLOOK

The Overall Economy

The economy is just starting to emerge from the recession despite high interest rates (even after adjusting for inflation) which have been restricting investment, exports and consumer durable purchases.

After falling 2.6 percent over the previous six months, the economy improved slightly in the April to June period. While net exports and nonresidential investment declined significantly during the second quarter, consumer spending rose more than enough to make up the difference, leaving overall output up at an annual rate of 1.7 percent from the first quarter. Industrial production continued to fall in the second quarter, but is likely to improve during the summer.

The stage seems set for a modest recovery in the second half of the year. Short-term interest rates have recently started to decline in a trend which should continue until late in the year. Long-term rates will soon ease modestly, enough to encourage improvement in housing by the fall. Investment in nonresidential structures should show improvement by the spring.

Little stimulus can be expected from the foreign trade sector. High interest rates continue to overvalue the dollar, making U.S. exports to be expensive and imports to be inexpensive, thus reducing jobs and productivity within the U.S. The economy received a $45 billion increase in after-tax income by the July tax rate reductions and social security benefit increases. As a result, consumption should increase and after a few months of adjusting to higher income, savings should continue at low levels and investment should be unaffected, except for the resulting higher federal deficit and borrowing caused by the tax cut taking funds away from the private sector and keeping interest rates higher than otherwise. The stimulus of consumption should be sufficient to keep overall economic growth in the two to three percent range during the next 18 months--half or less of the pace of a normal economic recovery.

Ironically, the forecast stagnation in investment growth and rapid upturn in consumption is the opposite of the intent of Congress and the Administration when the Economic Recovery Tax Act (ERTA) was passed last year. ERTA was designed to increase the rate of capital formation in the United States and improve productivity. To make room for this upsurge in investment, consumer spending needed to grow less rapidly and government spending and deficits needed to decline to allow savings and investment to occur in housing and industry. The share of consumption in overall national output has continued to rise despite ERTA and the government deficit has expanded, siphoning funds out of private investment in housing and new productivity-increasing plant and equipment. With the economy growing only modestly, interest rates should stay relatively high, and a strong upturn in investment may be delayed until 1984.

May and June saw an end to six months of unsustainably low inflation figures as consumer prices rose at a 12.7 percent annual compared rate. While some of this dramatic acceleration represents technical factors and poor sampling techniques in the Government's measurement of consumer prices, there can be no doubt that faster inflation can be expected over the next 18 months than during the first six months of this year. Oil prices are starting to rise again and businesses have almost finished inventory drawdowns which had placed downward pressure on prices during the first half of the year. Inflation can be expected to remain around eight percent through 1984.

The unemployment rate is expected to peak in the third quarter of this year at 9.7 percent before starting a gradual decline over the next two years. By historic standards, the unemployment rate will remain high--close to nine percent next year--and significantly above the levels anticipated by the federal government when estimating spending and recovery levels in 1983.

Federal Finances

After months of negotiations, Congress in June approved a First Concurrent Budget Resolution which calls for $770 billion in federal spending and projects $666 billion in federal revenues in FY1983. This would leave a projected $104 billion deficit for next year (see Table 1). Already, however, the Administration has started the traditional "upward revision" of its deficit estimates and recently predicted a $115 billion FY1983 deficit--even under the provisions of the resolution.

Table 1

Budget Spending, Taxes and Deficits
Fiscal Year, $billions

	1982		1983		1984	
	Admin	Realtors	Admin	Realtors	Admin	Realtors
Federal Spending	731.0	734.5	761.5	784.1	812.5	847.1
Federal Revenues	628.4	616.7	665.9	640.5	738.0	697.3
Federal Budget Surplus (+) or Deficit (-)	-105.7	-117.8	-103.9	-143.6	-83.9	149.8

The resolution calls for $95 billion in additional tax receipts during the 1983 through 1985 period compared with current law estimates. Spending cuts over this three-year period will estimate $172 billion including $146 billion in nondefense cuts.

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These government deficit projections, while still leading to excessive drainage on savings, at least represent a significant improvement over the early forecasts of $180 billion in FY1983 and as much as $240 billion in FY1985.

However, there is still a long way to go before these good intentions can be translated into action. Over the past decade, actual federal spending has significantly exceeded initial forecasts--often by $40 billion or more--and there's a strong chance that this record will be repeated in 1983. For one thing, the government spending estimates assume very strong economic growth, relatively low unemployment rates and a sharp drop in interest rates over the period 1983 through 1985. If, as is likely, the economy stays on a more realistic slower growth track--with real GNP rising only 2.5 percent next year compared with the 4.0 percent estimate used by Congress--and high interest rates continue, another $40 billion plus spending overrun in 1983 is likely. Efforts to reduce spending will also be hampered by the concentration of the proposed cuts in nondefense areas, by delays in determining and reducing social security spending and by the relatively small proportion of spending cuts which are continued in the all-important reconciliation provision of the resolution. Moreover, there are already indications that the govenment's projections for defense outlays are underestimated by about $8 billion in FY1983 and as much as $25 billion in FY1985.

It is still too early in the budget process to tell if Congress' proposed cuts will indeed be achieved. Nevertheless, financial markets have so far remained wary of recent Congressional intention, with long-term interest rates staying high as lenders fear deficits of well over $100 billion in each of the three fiscal years.

Interest Rates and Financial Markets

Short-term interest rates fell significantly during the middle of July as the sharp decline in the nation's money supply greatly reduced the probability of a policy of tighter credit by the Federal Reserve. This more than offset fears in the financial markets that federal borrowing requirements would continue to grow.

After five months of rapid growth, during June the low level of economic activity began to have the long-awaited impact on money supply growth. M1 declined nearly $9 billion within three weeks and even after the large jump in money supply during the first week of July, growth was well within target for M1 for the first time in 1982.

This has allowed the Federal Reserve to ease monetary policy slightly and add reserves to the banking system in order to keep money supply from declining too rapidly. In another measure designed to encourage interest rates to fall, the Fed has lowered the discount rate to 11 percent from 12 percent in June. Although the prime rate has only fallen 1 to 1-1/2 percent to 15 to 15-1/2 percent, other major instruments in the money markets have declined significantly. Federal funds have fallen from 14-1/2 percent in early July to

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11 percent during the week of July 23. Similarly, three months commercial paper has fallen from 14-1/2 percent to 12 percent and bank certificates of deposit have fallen from nearly 15 percent to 12 percent.

If Congressional assurances of federal deficit reductions can be translated into action--by no means a foregone conclusion--short-term interest rates could ease further.

The current outlook is for short-term rates to stay around current levels through the fall, before moving up again. For example, the federal funds rate--a key short-term indicator--may average around 12 percent during the third quarter compared with 14.4 percent during the second quarter of 1982. Long-term interest rates can also be expected to ease during the second half of the year, but unfortunately not as much as short-term rates. New mortgage commitment rates in particular are not expected to fall much below 15.5 percent during the next six months as the major originators of new loans remain locked in their recent liquidity squeeze and net deposit inflows stay barely positive.

The improvement in the economy and the predicted recovery in private nonresidential investment in early 1983 should force short-term rates back up again next year. The federal funds rate, for example, is forecast to increase to over 14 percent during the first six months of the new year. Still, this is significantly below the 16.4 percent average for 1981. Fortunately, mortgage rates have started to decline slightly and a further continued but very modest improvement is expected as the liquidity position of thrifts recovers slightly and the margin between mortgages and other long-term investments returns to more normal levels. Nevertheless, new mortgage commitment rates are likely to remain in the 15 to 16 percent range during 1983 before falling to the 14 to 15 percent range in 1984. Fortunately, assumption interest rates are continuing at about 13 percent and seller provided financing is averaging 12 percent. Thus, the "blended" mortgage interest rate is about 14 percent and can expect to trend downward as the new commitment mortgage rate declines.

The Federal Reserve Board has indicated that it intends to maintain the same targets for credit growth next year. This would mean that the narrowly defined money stock (M1) would be allowed to grow between 2-1/2 to 5-1/2 percent, while the more broadly defined measure known as M2 would have a target growth range of 6 to 9 percent for 1983. These are tight targets--especially if inflation does not ease further. However, at the top end of the target ranges, there may be enough room to provide sufficient funds for further modest falls in long-term interest rates and real economic growth of around 2-3 percent.

There was encouraging news from the nation's savings and loan associations as mortgage loans closed increased a more than seasonal $1.1 billion in July. The increased mortgage lending activity by savings and loan associations was primarily due to a $3.5 increase in deposit balances at associations during June. This was more than twice the gain in May. Unfortunately, the increased deposits were the result of end-of-quarter interest credited to accounts as opposed to a net new deposit increase. In fact, net new deposits, that is new deposits minus withdrawals declined $3.2 billion in June.

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Savings and loan associations have been suffering chronic deposit withdrawals because their deposit instruments are less competitive against other savings instruments paying higher interest rates and having greater liquidity. This state of affairs will continue until lower interest rates and a more predictable economic climate emerges.

Mutual savings banks also showed an increase in total deposits, but this was again primarily due to interest credited. Deposits at mutual savings banks increased $800 million, but this was not enough to reverse the declining trend for mortgage lending by these institutions. Mortgage loans held by mutual savings banks declined nearly $1.0 billion during May to $96.3 billion. This is savings banks declined nearly $1.0 billion during May to $96.3 billion. This is a continuation of a downward slide that has been in effect all this year. Outstanding mortgage loans at mutual savings banks stood at $99.8 billion at the end of January.

Commercial banks, on the other hand, continued increasing real estate lending by $600 million in June. This follows a $600 increase in May, a $1.2 billion increase in April, and an average $690 million increase so far this year. The steady improvement of real estate lending by commercial banks is primarily due to their ability to more readily compete for deposits. Commercial banks, who are not burdened by large amounts of old low yielding mortgage loans in their portfolio, are therefore more able than thrift institutions to afford the high rate of interest needed to attract deposits at the present.

If interest rates continue to slide through the summer and into the fall, modest improvement in new mortgage lending can be expected. While the financial position of the thrift industry will remain precarious, deposit flows are expected to improve modestly over the next six months. Small denomination time and savings deposits at thrifts are expected to increase nearly $30 billion (or at an 8.7 percent annual rate) during the second half of this year and a further 9 percent next year. Similarly, time and savings deposits at commercial banks are expected to grow at a 10 percent rate during the second half of 1982 and 9.5 percent in 1983. This will not leave either group of financial institutions awash with loanable funds, but it will support the amount of mortgage lending we expect.

Residential Real Estate

The beleaguered resale market experienced another month of lackluster activity--and there is as yet only faint signs of improvement. Nationwide, sales of existing single-family homes in June were at a seasonally-adjusted annual rate of 1.95 million units. This is up just 2.6 percent from the preceding month and marks the ninth consecutive month in which the rate of resale activity has remained under the two million unit level. Currently, resales are off 27 percent from the same period a year ago and are down 51.5 percent from their cyclical peak set in November, 1978.

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Table 2

Existing Single-Family Home Sales Volume (Units)

Seasonally Adjusted Annual Rate

	United States	North-east	North Central	South	West
1978	3,863,000	494,000	1,132,000	1,495,000	741,000
1979	3,701,000	504,000	1,050,000	1,427,000	720,000
1980	2,881,000	384,000	797,000	1,154,000	547,000
1981	2,351,000	336,000	626,000	696,000	420,000
1981: May	2,580,000	360,000	720,000	1,010,000	490,000
June	2,680,000	380,000	700,000	1,110,000	490,000
1982: April	1,910,000	320,000	490,000	810,000	290,000
May <r>	1,900,000	320,000	460,000	800,000	320,000
June <p>	1,950,000	330,000	480,000	840,000	310,000

Continued high mortgage commitment rates and renewed increases in short-term interest rates coupled with the restrictions on assumptions of existing mortgages mean further slippage in existing home sales. Sales in the third quarter will remain around 2 million units before a very slow recovery begins in the fall. Sales will increase steadily throughout 1983 and 1984, and could approach the rate achieved in late 1978 during the closing months of 1984.

Sluggish existing home sales performance will make it difficult for persons to move up to new homes, so even though new home sales and starts do not use mortgage assumptions, they will suffer ripple effects. Housing starts this year will roughly equal 1981 and will grow slowly in 1983 and 1984. Nearly 1.5 million homes will be begun in 1984--a level remaining well below the 2.2 million units needed each year to meet our basic housing needs.

Housing prices have changed very little over the past year. A continuation of stagnant prices can be expected as the market adjusts to life without many assumptions. Frequently, homes which could have been sold at one price with an assumable mortgage will be discounted as buyers must go to traditional lenders. The alternative will be the seller taking a first mortgage (and the inherent risks). In the latter case, prices may stay up but the value received by the seller will be delayed, thus his appreciation in the house diminished. The median price existing home this year will sell for around $69,000, up about four percent from last year. Price increases should be somewhat greater in 1982 and 1983, but still well below the double-digit levels which prevailed in the 1970's. New home prices will also moderate, due largely to the smaller, less amenity-filled units currently being built. In general, housing prices in 1982 will increase somewhat less than inflation, but will roughly equal the inflation rate in 1983 and 1984.

Commercial and Industrial Investment

Interest rates continue slowing the pace of commercial and industrial construction. Indicative of the robust rate of construction contracts in the recent past, new construction put in place for private nonresidential buildings during May reached an annual rate of $65.5 billion which was two percent above April's rate and 11 percent above the rate of May 1981. The increase from May 1981 to May 1982 was paced by a 36 percent increase in office construction. Now, however, the recession and high interest rates have taken its toll on this durable construction category. Office construction contracts fell 11 percent during the first five months of this year under the first five months of 1981 although there was a significant upturn in activity in June. For industrial building as a whole, contracts are down 40 percent over this five-month period.

Office buildings and new factory construction are expected to bear the brunt of the downturn in nonresidential activity this year. Despite June's upturn, new office construction activity in 1982 will not match last year's hectic pace. For example, the F.W. Dodge construction forecast expects the volume of new contract activity for office buildings to reach just 230 million square feet this year, compared to last year's 317 million square feet. Similarly, the sluggish economy and low capacity utilization levels in manufacturing will mean a drop in the volume industrial construction of over 25 percent this year. However, nonresidential construction should begin to recover by spring of 1983 as excess office building space is worked off and the economy enters its 9 months of slow recovery. By late 1983, the volume of nonresidential construction activity should be growing at around four percent per annum as long-term interest rates continue to decline modestly.

Table 3

U.S. ECONOMIC OUTLOOK

AUGUST 1982

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	82:1	82:2	82:3	82:4	83:1	83:2	83:3	83:4	1980	1981	1982	1983	1984
AGGREGATE ECONOMY													
Gross National Product ($ billions)	2,996	3,047	3,111	3,182	3,245	3,314	3,402	3,493	2,633	2,938	3,084	3,364	3,693
Percent Change	-1.0	7.1	8.6	9.4	8.3	8.7	11.0	11.1	8.9	11.6	5.0	9.1	9.8
Percent Change (without inflation)	-5.1	1.7	1.3	2.9	1.8	2.2	4.3	3.6	-0.4	1.9	-1.5	2.4	2.8
Consumption	2.4	3.1	3.1	3.4	1.3	1.7	4.7	2.4	0.3	1.8	1.3	2.6	2.7
Durables	10.5	4.4	8.9	10.9	0.5	3.3	13.8	4.1	-6.9	2.2	0.7	6.0	5.8
Nondurables	-1.0	3.9	2.7	2.1	0.9	0.4	2.1	1.6	0.8	1.8	1.2	1.7	1.8
Services	3.0	1.9	1.6	2.1	1.9	2.1	3.9	2.5	2.4	1.7	1.6	2.2	2.4
Residential Investment	-9.7	3.1	35.2	14.8	4.7	22.4	20.2	16.3	-20.1	-4.9	-8.7	15.9	13.3
Nonresidential Investment	-5.0	-8.5	-15.4	-11.6	-0.9	3.1	7.5	5.3	-2.3	3.5	-4.4	-3.4	3.8
Structures	1.5	1.5	-15.3	-18.5	-5.1	1.2	4.4	4.2	-1.1	6.2	0.7	-6.0	3.6
Equipment	-7.7	-12.8	-15.5	-8.3	1.2	4.0	8.8	5.8	-2.7	2.4	-6.5	-2.2	3.9
Exports	-12.6	1.6	-0.5	2.3	2.6	4.6	4.9	4.4	8.9	-0.5	-3.9	2.8	2.9
Imports	-17.6	7.5	-1.9	4.8	7.5	4.9	6.6	5.4	-0.4	7.2	-0.1	5.1	4.7
Government Purchases	-2.9	-6.3	-1.1	1.5	0.1	0.5	-0.2	-0.5	2.2	0.9	-0.5	-0.2	0.8
Consumption (% of GNP)	64.5	64.8	65.0	65.1	65.0	65.0	65.0	64.8	63.1	63.1	64.9	65.0	64.9
Residential Investment (% of GNP)	2.6	2.7	2.9	2.9	3.0	3.1	3.2	3.3	3.2	3.0	2.8	3.1	3.5
Nonresidential Investment (% of GNP)	11.7	11.4	10.9	10.5	10.4	10.4	10.5	10.6	11.3	11.4	11.1	10.5	10.6
Inventory Change ($ billions)	-35.6	-19.7	-11.4	0.5	10.7	11.1	10.9	20.8	-10.0	20.4	-16.6	13.4	21.8
Mfg. Capacity Utilization Rate (%)	72	70	70	70	71	72	73	74	79	78	71	72	74
Auto Sales (millions of units)	8.2	7.4	7.6	7.9	8.2	8.4	8.9	9.1	9.0	8.6	7.8	8.6	8.7
Manufacturing Industrial Production (% change)	-13.5	-5.0	-0.2	6.9	4.8	7.4	9.9	5.3	-4.5	2.4	-7.5	5.1	3.8
Common Market	2.6	2.6	1.1	3.4	2.6	3.7	2.6	2.7	0.2	-1.8	1.9	2.8	2.4
Japan	-3.7	-7.0	9.2	6.1	7.3	4.1	4.5	3.6	6.8	3.1	1.8	5.2	3.9
Employment (millions)	99.6	99.7	100.0	100.7	101.2	101.7	102.6	103.3	99.3	100.4	100.0	102.2	104.7
Unemployment Rate (%)	8.8	9.5	9.7	9.3	9.2	9.2	8.9	8.7	7.2	7.6	9.3	9.0	8.5
Disposable Income per Household (average)	27,189	27,571	28,591	29,065	29,545	29,957	31,016	31,654	23,779	26,212	28,104	30,543	33,272
Percent Change -- Year Ago (w/o inflation)	0.2	0.8	1.8	1.9	2.6	1.9	2.0	2.3	-0.5	1.5	1.2	2.2	2.2
Total Taxes per Household (average)	13,269	13,357	13,297	13,567	13,942	14,263	14,229	14,518	12,080	13,499	13,373	14,238	15,247
Percent Change -- Year Ago	-0.6	-0.9	-2.8	0.6	5.1	6.8	7.0	7.0	8.8	11.8	-0.9	6.5	7.1
Percent of Disposable Income	48.8	48.4	46.5	46.7	47.2	47.6	45.9	45.9	50.8	51.5	47.6	46.6	45.8
Household Debt as Percent of Disposable Income	76.2	76.2	74.3	74.1	74.1	74.1	72.6	72.3	79.3	77.0	75.2	73.3	72.1
Consumer Price Inflation (CPI)	3.2	4.6	9.2	7.1	7.0	8.0	7.9	7.8	13.5	10.3	6.6	7.5	8.1
Gross National Product Inflation (GNP Deflator)	4.3	5.3	7.2	6.4	6.3	6.4	6.5	7.3	9.3	9.4	6.5	6.5	6.8
Personal Consumption Inflation	4.9	3.6	7.1	6.1	6.9	6.3	6.3	6.3	10.3	8.6	6.0	6.3	6.6
Residential Construction Inflation	0.9	3.2	4.7	6.4	7.3	8.2	8.6	8.1	9.3	7.0	4.4	6.9	8.3
Nonresidential Construction Inflation	4.0	3.7	5.9	6.9	7.9	8.5	8.7	8.5	14.0	10.3	7.2	7.5	8.7
Producers Price Inflation (WPI)	0.6	0.5	7.0	6.5	7.1	6.8	7.2	8.4	14.1	9.1	2.8	6.6	8.3
Compensation per Manhour (% change)	8.1	7.1	7.6	7.9	8.5	8.2	8.4	8.4	9.9	10.0	7.7	8.1	8.5
Productivity (% change)	0.4	4.1	1.2	2.6	1.3	1.4	1.9	2.3	-0.3	0.9	-0.3	1.9	1.5
Unit Labor Cost (% change)	7.1	3.1	6.3	5.2	7.1	6.7	6.4	5.9	10.3	9.0	8.0	6.2	6.9
Unit Capital Cost (% change)	8.6	8.2	7.8	7.5	7.2	7.0	6.8	6.6	11.6	10.2	8.0	6.9	6.5
Before Tax Corporate Profits ($ billions)<1>	189	182	193	196	198	204	215	227	255	259	190	211	234
Corporate Tax Liability	56	51	54	56	60	63	67	71	85	81	54	66	74
'Windfall Profits' Tax Receipts	18	18	23	24	23	22	22	23	13	27	20	23	23
Inventory Valuation Adjustment	-4	-6	-9	-13	-14	-16	-17	-21	-43	-25	-8	-17	-25
Capital Consumption Adjustment	-10	-6	-4	-1	4	4	4	4	-18	-17	-5	4	-3
After Tax Profits	116	114	116	117	115	119	126	133	158	151	115	123	137
Profits from Current Production (with IVA, CCA)	101	101	102	103	104	108	113	115	97	109	102	110	109
Adjusted for Inflation (82:1 base)	101	100	99	98	98	100	103	103	111	114	100	101	94
Percent Change - Year Ago	-13.1	-10.4	-13.1	-13.2	-3.1	0.0	3.9	4.7	-17.2	3.0	-12.5	1.3	-7.3
Per Unit of Output (% of GNP)	3.4	3.3	3.3	3.2	3.2	3.3	3.3	3.3	3.7	3.7	3.3	3.3	3.0
Effective Corporate Tax Rate (%)<1>	36	35	36	36	38	38	38	39	46	43	36	38	41
Federal Tax Receipts (Unified basis)	574	686	578	552	568	781	649	617	533	622	597	654	715
Federal Expenditures (Unified basis)	669	734	713	765	784	794	780	827	602	694	720	796	868
Surplus or Deficit (Unified basis)	-95	-48	-135	-213	-216	-14	-132	-210	-69	-72	-123	-143	-153
% of GNP	3.2	1.6	4.3	6.7	6.6	0.4	3.9	6.0	3.2	3.6	4.0	4.2	4.1
% of Personal Savings	68.1	34.1	76.8	125.3	126.6	8.3	67.0	102.7	81.2	80.2	76.1	76.2	70.4
% of Total Private Savings	18.2	9.2	23.7	37.2	37.1	2.4	20.8	32.1	19.4	20.6	22.1	23.1	22.3

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

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Table 4

REAL ESTATE AND FINANCIAL MARKETS AUGUST 1982

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	82:1	82:2	82:3	82:4	83:1	83:2	83:3	83:4	1980	1981	1982	1983	1984
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	1,933	1,920	2,017	2,274	2,512	2,764	3,018	3,289	2,881	2,351	2,036	2,896	3,482
Percent Change - Year Ago	-25.6	-27.0	-10.5	18.2	29.9	44.0	49.7	44.6	-22.2	-18.4	-13.4	42.2	20.3
Dollar Volume (billions)	153.2	155.1	167.7	185.5	207.0	231.8	260.3	283.3	209.7	184.1	165.4	245.6	317.4
Existing Home Prices - Median ($1000's)	66.8	68.1	70.5	69.5	70.6	72.3	74.7	74.8	62.2	66.4	68.7	73.1	79.6
Percent Change - Year Ago	3.8	2.5	4.4	5.1	5.8	6.2	5.9	7.7	11.7	6.8	3.9	6.4	8.8
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	781	789	799	757	776	765	765	769	588	742	782	769	803
Percent of Household Income	29	29	29	27	27	26	25	25	25	29	28	26	25
New Single-Family Home Sales (thousands)	385	361	392	420	476	509	603	632	530	426	389	555	694
Percent Change - Year Ago	-26.3	-20.7	6.1	4.8	23.6	41.0	54.1	50.3	-25.2	-19.6	-10.9	42.5	25.0
New Home Prices - Median ($1000's)	66.4	70.1	70.8	71.7	72.8	74.1	75.4	76.6	64.6	68.9	69.7	74.7	80.0
Percent Change - Year Ago	-0.6	1.0	2.1	2.8	9.6	5.6	6.5	6.9	2.7	6.7	1.3	7.1	7.1
New Home Prices--Mean ($1000's, Quality Adjusted)	88.0	90.2	91.0	91.9	95.7	98.0	99.2	100.3	78.8	85.3	90.3	98.3	105.2
Percent Change - Year Ago	5.6	5.7	5.9	5.3	8.8	8.6	9.0	9.1	11.0	8.8	5.6	8.9	7.0
New Mortgage Commitments ($ billions)	58.6	51.4	60.1	71.9	82.7	83.1	89.2	100.0	87.1	60.2	60.5	88.7	120.6
Percent Change - Year Ago	-23.7	-25.7	24.0	58.3	41.2	61.6	48.3	39.0	-32.5	-30.9	0.9	46.7	35.8
Mortgage Debt Outstanding ($ billions)	1,560	1,617	1,647	1,678	1,711	1,744	1,781	1,820	1,400	1,509	1,625	1,764	1,934
Homeowners' Equity ($ billions)	2,289	2,303	2,289	2,303	2,365	2,399	2,441	2,486	2,115	2,237	2,296	2,423	2,604
Housing Inventory (millions)	84.8	84.9	85.0	85.1	85.2	85.4	85.5	85.7	83.8	84.5	84.9	85.5	86.2
Private Housing Starts (thousands)	920	956	1,037	1,110	1,077	1,229	1,295	1,353	1,292	1,084	1,006	1,238	1,483
Single-Family	594	601	648	672	672	785	838	873	852	705	629	792	972
Multi-Family	327	355	389	438	404	444	457	479	440	379	377	446	511
Subsidized	147	143	136	113	75	57	43	33	173	115	135	52	10
Mobile Home Shipments (thousands)	238	260	257	260	253	264	269	279	223	240	254	266	290
Rental Vacancy Rate (%)	5.3	5.3	5.3	5.2	5.2	5.1	5.1	5.1	5.4	5.0	5.3	5.1	5.1
Unsold New Homes (% of sales)	72.8	71.2	68.9	67.8	68.7	64.4	62.7	62.5	68.4	75.6	70.2	64.6	70.9
Office Vacancy Rate (%)<1>	5.4	5.7	5.9	6.2	6.5	6.5	6.4	6.2	3.7	4.3	5.8	6.4	5.9
Industrial Vacancy Rate (%)<1>	3.8	3.9	4.0	4.2	4.4	4.4	4.3	4.1	3.5	3.7	4.0	4.3	3.9
New Commercial Building Construction (% Ch Value)	26.0	7.5	-28.8	-19.9	15.8	17.0	16.4	16.9	21.8	12.1	5.8	1.5	15.2
New Industrial Building Construction (% Ch Value)	-18.4	-46.9	26.5	4.1	4.6	5.5	12.0	12.2	-6.8	20.2	-6.7	3.9	11.5
FINANCIAL MARKETS													
Personal Savings Rate (%)	6.6	6.6	7.9	7.5	7.3	7.0	8.0	8.2	5.8	6.4	7.1	7.6	8.1
Money Supply (M1b) (% change)	10.8	3.2	3.8	5.9	5.6	5.5	4.1	7.3	6.3	7.0	5.8	5.2	3.9
Money Supply (M2) (% change)	10.1	9.7	11.4	9.0	8.6	8.9	9.5	10.2	8.3	9.8	9.9	9.4	9.4
Total Time and Savings Deposits (% change)	7.0	10.8	11.1	10.7	8.5	7.2	7.7	8.3	7.6	8.9	8.2	9.0	7.8
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	17.45	17.27	16.89	16.21	16.35	15.72	15.20	15.25	14.00	16.71	16.96	15.63	14.97
Real Mortgage Rate	13.16	11.93	9.65	9.83	10.03	9.30	8.72	7.98	3.82	7.85	11.14	9.01	8.07
Seller Take Back Mortgage Rate	12.50	12.10	12.30	12.50	12.70	12.60	12.45	12.30	11.25	13.15	12.35	12.51	11.76
Blended Rate	14.73	14.66	14.48	14.11	14.25	13.89	13.63	13.70	12.23	14.15	14.49	13.87	13.64
Corporate Bond Rate (AAA)	15.01	14.51	13.71	13.56	13.74	13.22	12.16	12.25	11.94	14.17	14.20	12.84	11.78
Government Bond Rate	14.45	14.10	12.89	12.74	13.33	12.62	11.77	12.01	11.51	14.34	13.55	12.43	11.94
Real Long-term Government Bond Rate	10.15	8.75	5.65	6.37	7.01	6.20	5.29	4.73	1.33	5.48	7.73	5.81	5.05
Federal Funds Rate	14.23	14.51	12.42	13.22	14.45	13.69	13.17	13.55	13.36	16.38	13.59	13.71	13.92
3 Month Treasury Bills	12.81	12.42	11.28	12.01	13.15	12.27	11.92	12.32	11.43	14.03	12.13	12.42	12.61
1 Year Treasury Bills	14.33	13.80	12.38	12.83	13.62	12.57	12.03	12.31	12.05	14.78	13.33	12.63	12.62
Commercial Paper Rate	13.81	13.81	13.28	13.65	14.68	13.48	13.02	13.50	12.66	15.33	13.64	13.67	13.71
Rate on Money Market Fund Shares	14.06	14.06	13.54	13.91	14.94	13.73	13.28	13.78	12.89	15.68	13.89	13.93	13.93
Prime Rate	16.27	16.50	15.11	15.76	16.62	15.71	15.15	15.27	15.27	18.87	15.91	15.69	14.99

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

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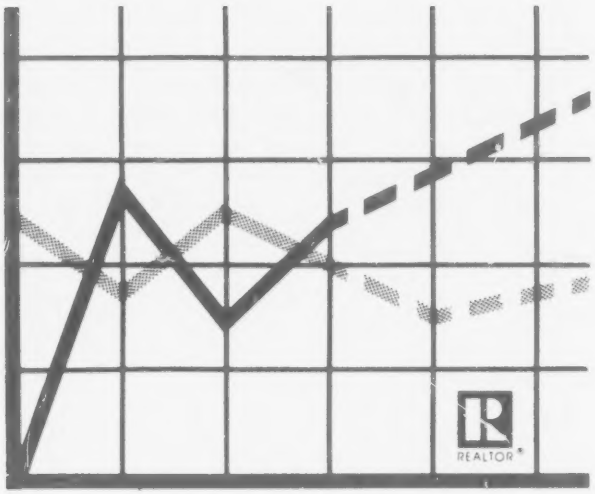
OUTLOOK FOR THE ECONOMY AND REAL ESTATE



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September 1982

U.S. ECONOMIC AND REAL ESTATE OUTLOOK

The outlook for economic recovery received a strong boost as short-term interest rates fell rapidly during August. Short-term rates are now at near normal levels given underlying inflation rate of six to seven percent. A major factor behind this drop in interest rates has been the monetary policy adopted by the Federal Reserve Board. The discount rate (interest rate on loans from the Federal Reserve to banks) was reduced four times by the Federal Reserve from 12 percent to 10 percent in a period of about seven weeks. Open market operations added to the growth of available credit over the past two months. This precipitated a drop in the prime rate from 16 percent in July to near 13-1/2 percent by the end of August. The sharp drop in short-term interest rates and the beginning of a slow decline in long-term interest rates will initiate what will be a drawn out recovery that will begin this fall that is expected slowly to gain momentum through the end of 1983.

Consumption

Consumption spending, which has increased at rates of near 2.25 percent over the first half of the year should increase by well over 3.5 percent during the fourth quarter. Consumer spending will be led by increased spending for durable goods which have long been delayed. Autos in particular could enjoy increased activity. Initial reports are that the prices on the 1983 models will not be greatly increased over the 1982 models so the automakers can avoid having to stage costly rebate programs every other month. With the scrappage rate for autos at 5.9 million units a year, instead of the normal 8 million unit rate, there is enormous pent-up demand among consumers. With prices not up sharply and a lot of cash-heavy consumers in the market, the model year could be better than last year or the year before.

The rapid decline in money market interest rates should also increase the likelihood that consumers will reduce their recently high rate of savings and start to spend. Interest rates on money market certificates, small savers certificates and other consumer money market instruments may now fall into single digit ranges and will, therefore, be reduced in appeal in comparison with long delayed purchases. The recent increase in transfer payments and decline in taxes pushed disposable personal income up $45 billion dollars in July from the level in June. However, consumers saved more than half that increase. With reduced interest rates on consumer saving instruments, this saving allocation is not likely to be maintained.

In October, consumers will be getting a large amount of cash when the small savers certificates and All Savers certificates which were introduced as savings devices over the past year mature. This will put more than $40 billion back into consumers' hands. Although consumers will continue to save at higher than historical rates, there will be some shift toward spending.

Investment

The beginning of the recovery in business investment will be delayed until the second quarter of 1983. This is primarily because long-term interest rates are declining more slowly than short-term rates and are still historically high. Also, there is a lot of spare capacity in the economy right now. The capacity utilization rate for manufacturing in July was 69.5 percent which was the fifth consecutive monthly decline and was only 0.5 percentage points above the record low of 69 percent in 1975. Most businesses also have balance sheets that are heavily burdened with short-term debt and any funds generated by the increased consumer spending in the second half of the year will go first to reducing this short-term debt. However, increased capacity utilization as a result of the forecast higher consumer spending

and lower long-term interest rates next year will allow business investment to add more steam to the recovery during the second half of 1983 and 1984.

Inventory investment will recover more quickly than other business investment but will not recover as quickly as in past recoveries. The diminished credit capacity of businesses will cause businessmen to keep tight control on inventories. However, with the first signs that the next recovery will be sustained, inventory purchases should rapidly recover.

Foreign Trade

There will not be strong growth in the export sector as foreign economies continue to experience slow growth and the dollar continues to be buoyant despite recent interest rate declines. Slow growth and high interest rates in the U.S. economy and defensive monetary policies of our major trading partners has kept foreign interest rates high, foreign economic growth slow, and, consequently, foreign demand for U.S. exports is down. Also, the oil exporting countries, which have been large purchasers of U.S. industrial and agricultural products, are importing less because of declining energy prices and slumped demand for oil. Continued strength in the dollar and weak foreign demand will keep U.S. exports declining in the current quarter and to improve only marginally in the final three months of this year. Exports are expected to continue to slowly grow through 1983 and 1984, growing well under three percent in both years.

Fiscal Policy

Congress and the Administration are still wrestling to get growing deficits under control. The new tax bill that passed Congress will increase revenues $98.3 billion dollars over the next three years. Although this is not yet enough to turn the tide in rising deficits, it will nevertheless be the important first step toward a more responsible fiscal policy.

The tax bill not only increased revenues, but 65 percent of the spending reductions to be accomplished by reconciliation action to implement the First Concurrent Budget Resolution were included in the tax bill. These cuts amount to $17 billion dollars over the next three years. However, Congress still has to complete action on all the FY 1983 appropriations bills in which major restraint will need to be exercised to keep spending in line with the budget estimates given in June.

Even these actions, however, will not be enough to bring about a significant reduction in the federal deficit unless so called "uncontrollable" government expenditures are brought under control. Defense spending needs to bear its share of the burden, along with a slowdown in the growth of social security payments. Some encouraging signs of Congressional action on these issues have emerged recently with Senator Bob Dole calling for a special post election session of Congress to address the future of the social security system.

Monetary Policy and Interest Rates

The rate of growth of the closely watched measure of money supply, M1, fell to within the growth targets of the Federal Reserve for the first time this year in early July. This slower growth of credit and the continued slackness in the economy prompted the Federal Reserve to begin injecting reserves into the banking system and to make cautious reductions in the discount rate--a key short-term interest rate. As business demands for credit remained soft and heavy government borrowing requirements eased temporarily during late July and August, other short-term interest rates plummeted.

The prime rate for loans to preferred business borrowers by banks fell from 16.5 percent in June to 13.5 percent by late August. The cost of funds for banks fell even further with interest rates on federal funds and large certificates of deposit falling from near 14 percent to under 9 percent. Although these rates have fallen dramatically, long-term rates and rates on consumer and mortgage loans have not declined as much because lenders fear that interest rates and their cost of funds will be going back up later in the year.

Short-term interest rates may now have fallen about as far as they can go. The prime rate may come down another 50 basis points to 13 percent, but the rates on federal funds and Treasury Bills will probably stabilize for the early fall near 9 percent. The Federal Reserve is expected to take a neutral stance with respect to bank reserves and allow interest rates to stabilize during the rest of 1982. They will probably wait to see what impact the credit loosening during the past several weeks has on money growth before taking any more policy initiatives.

Short-term rates should remain close to their current reduced levels until early next year when they will start going up again. With continued high government borrowing, overall credit demands will increase more than the supply of new savings and interest rates will start rising again. This may provide the necessary pressure on the government to implement legislation to further reduce government borrowing which will clear the way for a renewed decline in interest rates starting late in the second quarter of next year.

Mortgage rates and other long-term interest rates will slowly decline during the fall. The rate on corporate bonds should settle near 13 percent and mortgage interest rates for new commitments should bottom out at just under 15 percent. However, long-term rates will rise with short-term rates early next year with the corporate bond rate climbing above 13.5 percent and new commitment mortgage rates going back above 15.5 percent. Fortunately, rates should begin declining again late in the second quarter of next year, with corporate bonds falling to 11.5 percent and new mortgage rates falling to less than 14.5 in the fourth quarter of 1983.

There should be less fluctuation of mortgage interest rates in funds assumed in the transfer of title of homes and mortgage funds provided by sellers. The blended rate on new commitments, assumed loans and seller-provided funds should remain around 13-1/2 to 14 percent for the forseeable future.

Mortgage Markets

Mortgage lending by Savings and Loan Associations declined during July from June's rate. There was $3.8 billion in mortgage loans closed in July compared to nearly $5 billion closed in June. This greater than seasonal decline was the result of the continuing problems of thrift institutions in attracting deposits. Net new deposits declined more than $1.2 billion in July and net deposit gain which includes interest credited was only $870 million. This was more than $2.5 billion less than the $3.4 net deposit gain in June and the lowest deposit gain this year with the exception of April.

Mortgage commitment activity was also down for July falling $1.2 billion from June to $4.3 billion. The decline in commitments was counterseasonal and was the lowest amount of commitments since February. S&L's are using more funds to purchase loans from other lenders and increase their holdings of liquid assets. Liquid assets increased $2.4 billion in July which holdings in mortgage backed securities increased nearly $4.7 billion.

Mutual Savings Banks also continue to suffer a chronic drain on deposits as net new deposits declined $1.2 billion in June and preliminary estimates put the July

decline at $1.1 billion. Although total deposits increased in June, preliminary estimates show that interest credited was not enough to prevent a $200 million decline in total deposits in July. Mortgage loans outstanding held constant in June at $96.3 billion but is expected to show a decline in July due to a lack of deposit growth.

The rapid drop in interest rates during the second half of 1982 could exacerbate thrift industry problems in attracting deposits in the short run but will improve their earnings flow in the long run. The ceiling on saving certificates are tied to the short-term treasury securities whose interest rates have fallen most sharply. Also the lower interest rates may not be appealing to savers who will be cash heavy this fall after the All Savers certificates mature and have become accustomed to double digit rates of return. It is likely that consumers will be saving less and spending more this fall.

Commercial banks continued to increase the amount of real estate loans held. The increase in July was nearly $480 million behind deposit growth of more than $1.2 billion in deposit loans. Unlike the thrift institutions, commercial banks rely less on deposit instruments such as the small savers certificates and the All Savers Certificate. Instead, demand deposits and large certificates of deposits and money market certificates provide the major share of their loanable funds. Because of a shorter average maturity structure of their assets, their return on assets have risen with the general rise in short-term interest rates and have allowed them to more easily compete for funds than the unfortunate thrifts. For these reasons, it is expected that commercial banks will be able to continue expanding their share of mortgage lending as they have over the last decade.

Since new mortgage commitment rates are not expected to decline to much less than 15 percent before late next year at the earliest, mortgage lending will recover very slowly. This recovery will be interrupted this winter both due to seasonal factors and the increase in interest rates expected early next year. When new mortgage commitment rates begin declining again next spring, mortgage lending activity should pick up again. New mortgage commitment dollars should grow about 20 percent from now through 1983.

Residential Real Estate

The stagnant, poor performance of home sales and construction markets in the spring is continuing into the summer, but the market appears poised for a recovery to begin.

Existing home sales have remained at a level below a two million unit annual rate since October of last year, with month-to-month changes being very slight and not trending up or down. In July existing home sales again slipped to their cyclical low of 1.86 million unit annual rate, matching January's weak performance.

Similarly the new home market is stagnant. Although total housing starts have crossed the million unit annual rate threshold twice in the last three months, all the impetus to those bursts came from new multi-family units. Single-family housing starts all remaining at a 600,000 unit annual rate level. Until those single family numbers begin to increase, it cannot be reasonably claimed that home construction markets are recovering from the depression conditions.

This forecast continues to expect an increase in residential real estate activity in the current quarter. After the July performance, it may well be asked how this improvement can reasonably be expected. Beginning in the latter part of July interest rates began to decline--a trend that has continued and accelerated in August;

this can then be coupled with home prices just 2.5 percent higher than a year ago--and the results are real bargains for homebuyers.

Existing home sales are believed to have begun their recovery, which is expected to be quite slow but of long duration. Sales of existing homes should approach a 2.5 million unit rate by year end and pass the 3.0 million unit threshold by mid-year next year. If the interest rate declines currently underway continue for more than a few more weeks then activity can be expected to pick up more rapidly, with some likelihood of declines again when interest rates begin to move back up.

Housing starts, particularly of single-family homes, are expected to begin improving very soon also, but to remain about 1.2 million annual sales through the end of 1982 and rise to 1.3 to 1.4 million during 1983.

As the inventory of unsold homes currently available begins to deplete, prices are expected to begin to accelerate. Existing home prices this year will be less than four percent higher than in 1981. Price increases will be about equal to the inflation rate next year and higher than inflation through 1984. Similar price patterns are expected for both new and existing homes.

Commercial and Industrial Investment

Although the overall construction industry is depressed, conditions would be far worse if it had not been for private nonresidential building construction. Industrial building led the increases for all construction categories in June, increasing 1.4 percent over the May annualized rate to $19.5 billion. Office construction also showed a strong June increase, growing at a 9 percent rate over May 1982 and an extraordinary 42 percent over June 1981 to $24.2 billion. Commercial and industrial building are indicative of the strength of private nonresidential building as the category as a whole grew 6 percent in June to $68.5 billion.

Building awards for June indicate that there will be continuing strength for a while longer in the nonresidential building sector. After a slow first quarter, contracting for offices has almost increased to the record 300 million square foot rate of 1981 during the second quarter. For June, nonresidential building awards increased 32 percent to $6.1 billion according to F.W. Dodge, this was dominated by the start of 15 major office construction projects.

However, the expectation is for declining nonresidential construction activity until late 1983. The recent strong construction growth has flown in the face of declining economic activity and has resulted in an excess supply of office space in many major metropolitan areas. Even the recent declines in interest rates are not expected to support further construction expansion in this building category. This reduced activity will not bring the increases in capacity utilization and reduction in office vacancy rates needed to support continued strong commercial and industrial construction. Nonresidential building awards should decline from June's $6.1 billion to near $4 billion during the fall and remain in the $3 to $4 billion range through next spring when long-term rates begin to make a substantial decline. Private nonresidential building construction will fall to $60 to $62 billion annual rate by the end of the year and remain near that level until the late spring or early summer.

Table 1

U.S. ECONOMIC OUTLOOK

SEPTEMBER 1982

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	82:1	82:2	82:3	82:4	83:1	83:2	83:3	83:4	1980	1981	1982	1983	1984
AGGREGATE ECONOMY													
Gross National Product ($ billions)	2,996	3,041	3,102	3,170	3,238	3,304	3,384	3,472	2,633	2,938	3,077	3,350	3,674
Percent Change	-1.0	6.2	8.3	9.0	8.9	8.3	10.1	10.8	8.9	11.6	4.8	8.9	9.7
Percent Change (without inflation)	-5.1	1.3	1.6	2.7	2.6	2.4	3.8	3.8	-0.4	1.9	-1.5	2.6	3.2
Consumption	2.4	2.0	2.5	3.2	2.7	2.6	3.6	2.9	0.3	1.8	1.0	2.8	3.0
Durables	10.4	1.7	7.1	10.1	6.4	4.8	9.5	7.2	-6.9	2.2	-0.1	7.0	6.8
Nondurables	-1.0	2.7	1.8	1.8	2.6	2.4	2.1	1.6	0.8	1.8	-0.8	2.2	2.0
Services	3.0	1.5	1.6	2.3	1.7	2.0	3.0	2.6	2.4	1.7	1.6	2.1	2.6
Residential Investment	-9.7	10.7	21.8	25.5	26.7	16.1	13.5	10.1	-20.1	-4.9	-8.1	20.0	10.0
Nonresidential Investment	-5.0	-12.4	-11.6	-8.0	-0.5	2.4	6.2	6.4	-2.3	3.5	-4.4	-2.5	5.9
Structures	1.3	2.5	-9.5	-12.6	-11.1	-6.9	-1.7	0.5	-1.1	6.3	2.0	-7.8	1.0
Equipment	-7.6	-18.4	-12.6	-5.7	4.8	6.8	9.7	9.0	-2.7	2.4	-7.1	0.0	8.1
Exports	-12.6	6.2	-4.8	0.2	4.0	4.5	5.3	5.3	8.9	-0.5	-3.7	2.6	2.1
Imports	-17.6	13.2	-6.9	5.4	7.2	6.2	6.8	6.5	-0.4	7.2	0.3	5.1	5.9
Government Purchases	-2.9	-6.1	1.6	1.3	-1.4	-0.8	0.8	0.0	2.2	0.9	-0.2	-0.3	0.9
Consumption (% of GNP)	64.5	64.7	64.8	64.9	64.9	64.9	64.9	64.7	63.1	63.1	64.7	64.9	64.8
Residential Investment (% of GNP)	2.6	2.7	2.8	3.0	3.1	3.2	3.3	3.4	3.2	3.0	2.8	3.3	3.5
Nonresidential Investment (% of GNP)	11.7	11.3	10.9	10.6	10.5	10.5	10.6	10.6	11.3	11.4	11.1	10.6	10.8
Inventory Change ($ billions)	-35.6	-17.4	-8.3	0.6	5.2	7.1	10.0	17.8	-10.0	20.4	-15.2	10.0	23.1
Mfg. Capacity Utilization Rate (%)	72	70	69	70	71	72	73	74	79	78	70	72	74
Auto Sales (millions of units)	8.0	7.5	7.7	8.1	8.3	8.3	8.7	9.0	9.0	8.5	7.8	8.6	9.3
Manufacturing Industrial Production (% change)	-13.5	-5.5	-4.1	6.1	6.7	6.9	9.7	7.8	-4.5	2.4	-8.1	4.9	5.8
Common Market	2.6	1.9	-0.5	3.0	2.5	3.6	2.7	3.6	0.2	-1.8	1.6	2.5	2.8
Japan	-3.7	-7.0	9.4	6.2	7.4	4.2	4.5	3.6	6.8	3.1	1.8	5.3	4.1
Employment (millions)	99.6	99.7	99.8	100.2	101.0	101.5	102.2	102.8	99.3	100.4	99.8	101.9	104.2
Unemployment Rate (%)	8.8	9.5	9.8	9.8	9.4	9.4	9.2	9.1	7.2	7.6	9.5	9.3	8.9
Disposable Income per Household (average)	27,189	27,605	28,531	29,042	29,459	29,952	30,859	31,494	23,779	26,212	28,092	30,441	33,038
Percent Change -- Year Ago (w/o inflation)	0.2	0.9	1.7	2.1	2.7	2.3	2.2	2.4	-0.5	1.5	1.2	2.4	2.3
Total Taxes per Household (average)	13,269	13,424	13,284	13,480	13,864	14,070	14,093	14,364	12,080	13,499	13,364	14,097	15,182
Percent Change -- Year Ago	-0.6	-0.4	-2.9	0.0	4.5	4.8	6.1	6.6	8.8	11.8	-1.0	5.5	7.7
Percent of Disposable Income	48.8	48.6	46.6	46.4	47.1	47.0	45.7	45.6	50.8	51.5	47.6	46.3	45.9
Household Debt as Percent of Disposable Income	76.2	75.7	74.2	73.8	73.9	73.7	72.4	72.2	79.3	77.0	75.0	73.1	71.5
Consumer Price Inflation (CPI)	3.2	4.6	8.3	5.1	7.5	7.0	6.7	6.7	13.5	10.3	6.4	6.7	7.4
Gross National Product Inflation (GNP Deflator)	4.3	4.9	6.6	6.1	6.2	5.8	6.0	6.8	9.3	9.4	6.4	6.1	6.3
Personal Consumption Inflation	4.9	3.6	6.6	5.5	6.4	5.7	5.7	5.8	10.3	8.6	5.9	5.8	6.1
Residential Construction Inflation	1.7	-3.9	3.8	5.8	7.5	6.9	7.3	7.1	9.4	7.0	3.0	5.8	7.3
Nonresidential Construction Inflation	4.0	4.5	5.7	6.5	8.2	7.4	7.8	7.4	14.0	10.3	7.3	7.1	7.7
Producers Price Inflation (WPI)	0.6	0.5	4.5	5.2	6.5	6.2	6.6	7.1	14.1	9.1	2.4	5.6	7.6
Compensation per Manhour (% change)	10.1	5.9	7.2	7.3	7.9	7.6	7.9	8.0	10.3	9.6	8.0	7.5	8.1
Productivity (% change)	2.4	2.4	0.9	2.0	2.1	2.2	2.3	2.2	-0.9	1.4	0.5	2.0	1.9
Unit Labor Cost (% change)	7.4	3.7	6.1	5.1	5.6	5.2	5.5	5.7	11.2	8.1	7.4	5.4	6.0
Unit Capital Cost (% change)	8.6	8.1	7.8	7.4	7.0	6.8	6.6	6.5	11.5	10.1	8.0	6.7	6.5
Before Tax Corporate Profits ($ billions)<1>	189	186	184	188	193	199	209	219	252	259	187	205	239
Corporate Tax Liability	56	54	52	54	59	61	64	68	85	81	54	63	74
'Windfall Profits' Tax Receipts	18	18	18	18	19	19	20	20	9	27	18	20	23
Inventory Valuation Adjustment	-4	-8	-7	-12	-16	-18	-19	-21	-43	-25	-8	-18	-27
Capital Consumption Adjustment	-10	-6	-5	-1	4	4	5	4	-18	-17	-5	4	-1
After Tax Profits	116	115	114	116	115	119	125	131	158	151	115	123	143
Profits from Current Production (with IVA, CCA)	101	101	103	103	103	106	111	115	97	109	102	109	114
Adjusted for Inflation (82:1 base)	101	100	100	99	97	99	102	104	111	114	100	100	99
Percent Change - Year Ago	-13.1	-10.4	-12.7	-13.1	-4.1	-1.6	2.1	5.0	-17.2	3.0	-12.3	0.3	-1.4
Per Unit of Output (% of GNP)	3.4	3.3	3.3	3.2	3.2	3.2	3.3	3.3	3.7	3.7	3.3	3.2	3.1
Effective Corporate Tax Rate (%)<1>	36	36	35	35	37	37	37	38	46	43	36	38	40
Federal Tax Receipts (Unified basis)	574	716	577	547	564	767	641	607	533	622	603	645	713
Federal Expenditures (Unified basis)	669	726	731	767	781	790	777	824	602	694	723	793	868
Surplus or Deficit (Unified basis)	-95	-10	-154	-220	-217	-23	-136	-217	-69	-73	-120	-148	-155
% of GNP	3.2	0.3	5.0	6.9	6.7	0.7	4.0	6.3	3.2	3.6	3.9	4.4	4.2
% of Personal Savings	68.1	6.7	84.8	120.5	125.1	13.2	67.8	104.0	81.2	80.3	70.0	77.5	72.5
% of Total Private Savings	18.2	1.9	26.8	37.7	37.3	3.9	21.4	33.1	19.4	20.6	21.1	23.9	22.6

<1> Adjusted to include impact of windfall profits tax on domestic crude oil production.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
Assumptions and simulations by Dr. Jack Carlson, Hugh Graham, Kenneth Kerin, and Glenn Crellin.

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Table 2

REAL ESTATE AND FINANCIAL MARKETS

SEPTEMBER 1982

	QUARTERS								YEARS				
	Actual		Forecast						Actual		Forecast		
	82:1	82:2	82:3	82:4	83:1	83:2	83:3	83:4	1980	1981	1982	1983	1984
REAL ESTATE MARKETS													
Existing Single-Family Home Sales (thousands)	1,933	1,920	1,996	2,299	2,560	2,707	2,904	3,154	2,881	2,351	2,037	2,831	3,418
Percent Change - Year Ago	-25.6	-27.0	-11.4	19.5	32.4	41.0	45.5	37.2	-22.2	-18.4	-13.4	39.0	20.7
Dollar Volume (billions)	155.2	155.1	164.1	185.1	208.2	223.7	246.1	266.4	209.7	184.1	164.4	236.1	304.1
Existing Home Prices - Median ($1000's)	66.8	68.1	69.7	68.6	69.7	71.2	73.4	73.4	62.2	66.4	68.3	71.9	77.6
Percent Change - Year Ago	3.8	2.5	3.1	3.6	4.4	4.6	5.3	7.0	11.7	6.8	3.3	5.3	8.0
Monthly Mortgage Payment (P&I, 80%, 30 yr.)	781	789	770	685	728	742	747	735	588	742	756	738	765
Percent of Household Income	29	29	28	24	25	25	25	24	25	29	27	25	24
New Single-Family Home Sales (thousands)	385	361	391	446	496	531	580	575	530	426	396	546	613
Percent Change - Year Ago	-26.3	-20.7	6.0	11.2	28.9	47.1	48.3	28.8	-25.2	-19.6	-9.4	37.8	12.4
New Home Prices - Median ($1000's)	66.4	70.8	72.8	74.1	75.4	76.5	77.8	79.0	64.6	68.9	71.0	77.2	82.3
Percent Change - Year Ago	-0.7	2.0	5.1	6.2	13.5	8.1	6.7	6.7	2.7	6.7	3.2	8.6	6.7
New Home Prices--Mean ($1000's, Quality Adjusted)	88.3	88.2	89.2	91.0	92.5	93.0	94.6	96.9	78.8	85.3	89.2	94.3	101.4
Percent Change - Year Ago	6.0	3.4	3.8	4.2	4.8	5.4	6.1	6.5	11.0	8.8	4.4	5.7	7.6
New Mortgage Commitments ($ billions)	58.6	48.0	59.8	74.5	75.1	65.3	63.5	64.9	87.2	60.0	60.2	67.2	80.1
Percent Change - Year Ago	-23.7	-30.5	23.4	63.9	28.1	35.9	6.2	-12.9	-32.4	-31.2	0.5	11.5	19.3
Mortgage Debt Outstanding ($ billions)	1,560	1,617	1,638	1,662	1,688	1,711	1,739	1,766	1,400	1,509	1,619	1,726	1,860
Homeowners' Equity ($ billions)	2,281	2,289	2,321	2,362	2,454	2,511	2,559	2,607	2,115	2,237	2,313	2,533	2,731
Housing Inventory (millions)	84.8	84.9	85.0	85.1	85.3	85.4	85.6	85.8	83.8	84.5	84.9	85.5	86.4
Private Housing Starts (thousands)	920	951	1,088	1,182	1,256	1,296	1,347	1,400	1,292	1,084	1,036	1,325	1,504
Single-Family	594	604	644	726	795	831	869	903	852	705	642	850	959
Multi-Family	327	347	444	456	461	464	478	497	440	379	394	475	545
Subsidized	147	143	136	113	75	57	43	33	173	115	135	52	10
Mobile Home Shipments (thousands)	238	253	258	270	277	282	284	289	223	240	255	283	303
Rental Vacancy Rate (%)	5.3	5.1	5.3	5.2	5.2	5.2	5.1	5.1	5.4	5.0	5.2	5.1	5.1
Unsold New Homes (% of sales)	73.2	75.5	68.8	65.1	69.4	68.9	69.0	68.7	68.4	75.6	70.7	69.0	71.6
Office Vacancy Rate (%)<1>	5.4	7.0	7.3	7.5	7.8	8.0	7.8	7.7	3.7	4.3	6.8	7.8	7.4
Industrial Vacancy Rate (%)<1>	3.8	4.2	4.4	4.7	4.8	4.9	4.7	4.6	3.5	3.7	4.3	4.8	4.2
New Commercial Building Construction (% Ch Value)	19.0	8.1	-9.3	-13.4	-10.0	5.3	11.8	12.8	21.8	13.9	7.8	-2.9	12.2
New Industrial Building Construction (% Ch Value)	-18.2	13.2	-19.5	-8.8	-6.9	-0.4	5.9	6.3	-6.6	22.0	-0.9	-4.4	9.8
FINANCIAL MARKETS													
Personal Savings Rate (%)	6.6	6.9	8.1	8.0	7.5	7.4	8.2	8.4	5.8	6.4	7.4	7.9	8.1
Money Supply (M1b) (% change)	10.8	3.3	2.8	5.3	5.0	2.9	3.4	6.2	6.3	7.0	5.7	4.1	4.0
Money Supply (M2) (% change)	10.1	9.8	14.1	10.4	7.3	6.3	7.7	8.5	8.3	9.8	10.4	8.8	8.3
Total Time and Savings Deposits (% change)	7.0	11.3	12.1	12.1	8.6	5.1	5.6	6.5	7.6	8.9	8.5	8.6	7.4
Selected Interest Rates (Percent)													
New Home Mortgage Commitment Rate	17.45	17.28	16.44	14.81	15.52	15.47	15.10	14.84	14.00	16.71	16.50	15.23	14.59
Real Mortgage Rate	13.16	12.36	9.84	8.72	9.31	9.67	9.07	8.04	3.82	7.85	11.02	9.02	8.19
Assumption Rate	11.97	11.59	11.78	11.92	12.11	12.06	11.92	11.54	10.70	11.00	11.82	11.91	11.16
Seller Take Back Mortgage Rate	12.50	12.10	12.30	12.50	12.50	12.50	12.20	12.05	11.50	11.80	12.35	12.31	11.50
Blended Rate	14.73	14.66	14.20	13.23	13.73	13.74	13.56	13.45	12.23	14.15	14.20	13.62	13.41
Corporate Bond Rate (AAA)	15.01	14.51	13.61	12.98	12.75	12.52	11.99	11.69	11.94	14.17	14.03	12.24	10.94
Government Bond Rate	14.45	14.10	12.15	11.69	13.24	12.73	11.50	11.62	11.51	14.34	13.09	12.27	10.87
Real Long-term Government Bond Rate	10.15	9.18	5.54	5.60	7.03	6.93	5.48	4.81	1.33	5.48	7.62	6.06	4.46
Federal Funds Rate	14.23	14.51	9.41	9.69	13.37	13.30	12.28	12.56	13.36	16.38	11.96	12.88	12.30
3 Month Treasury Bills	12.81	12.42	8.47	8.64	11.81	11.84	11.15	11.47	11.43	14.03	10.58	11.56	11.39
1 Year Treasury Bills	14.33	13.80	10.52	10.49	13.37	13.16	12.22	12.39	12.05	14.78	12.28	12.79	12.01
Commercial Paper Rate	13.81	13.81	9.72	9.49	13.43	13.46	12.57	12.94	12.66	15.33	11.71	13.10	12.83
Rate on Money Market Fund Shares	14.06	14.06	9.97	9.93	13.84	13.66	12.79	13.19	12.89	15.68	12.00	13.37	13.06
Prime Rate	16.27	16.50	13.92	12.43	14.53	15.20	14.76	14.70	15.27	18.87	14.78	14.80	14.41

<1> Historical data courtesy of Coldwell Banker.

Source: Model developed by the NATIONAL ASSOCIATION OF REALTORS, and Data Resources, Inc.
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